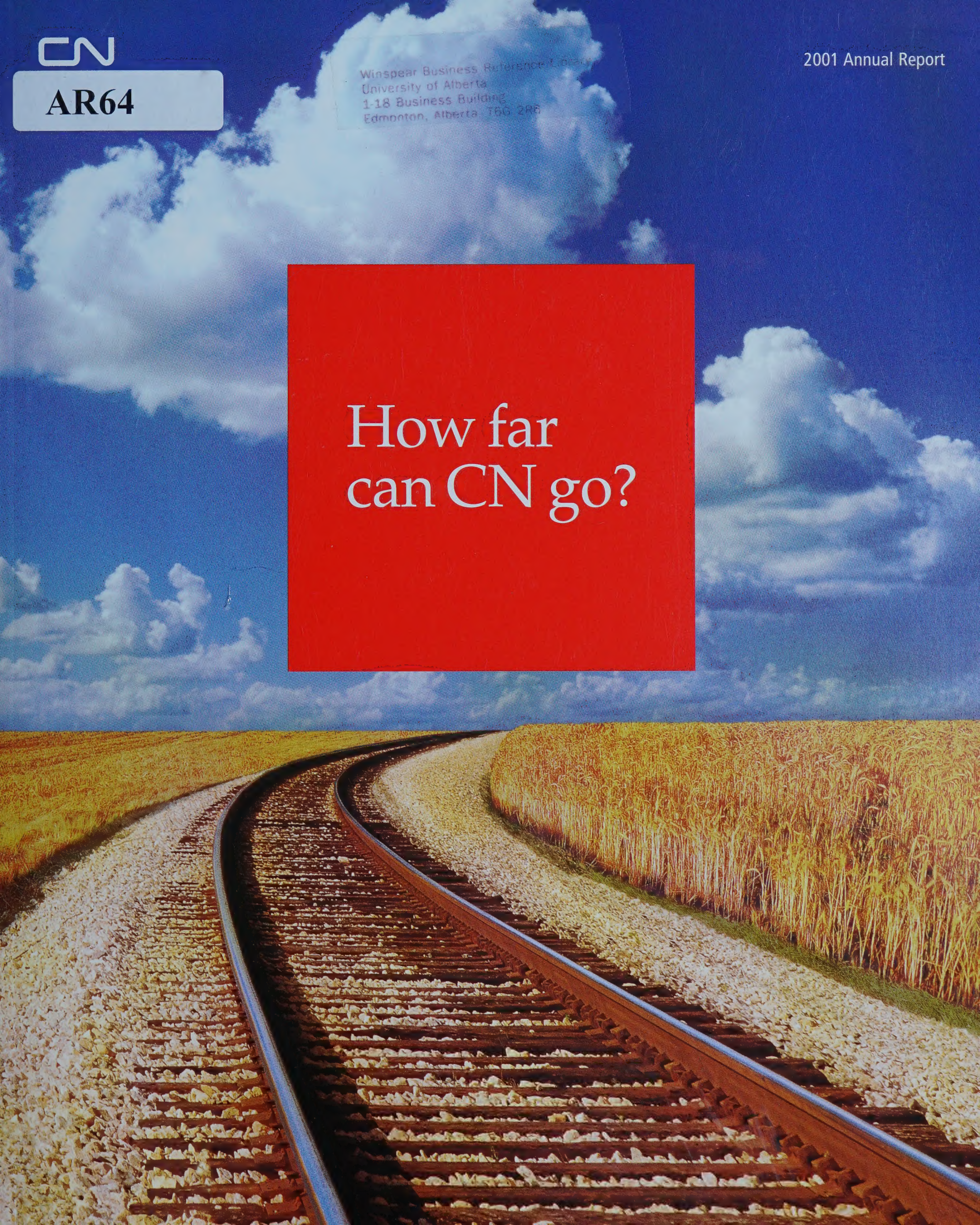
2001 Annual Report

How far can CN go?



Contents

1 2001 Overview
18 Message from Paul M. Tellier
19 Financial summary
22 How far can CN go?
24 Message from David McLean
25 Going further for our communities
28 CN at a glance
30 Glossary of terms
31 Financial Section (U.S. GAAP)
67 Financial Section (Canadian GAAP)
103 The CN Pension Plan and the CN 1935 Pension Plan
111 President's Awards for Excellence
112 Board of Directors
114 Executive Officers of the Company
115 Shareholder and investor information

The journey is

Except where otherwise indicated, all financial information reflected in this document is expressed in Canadian dollars and determined on the basis of United States generally accepted accounting principles (U.S. GAAP).

"How far can CN go?" A good question, asked of us often.

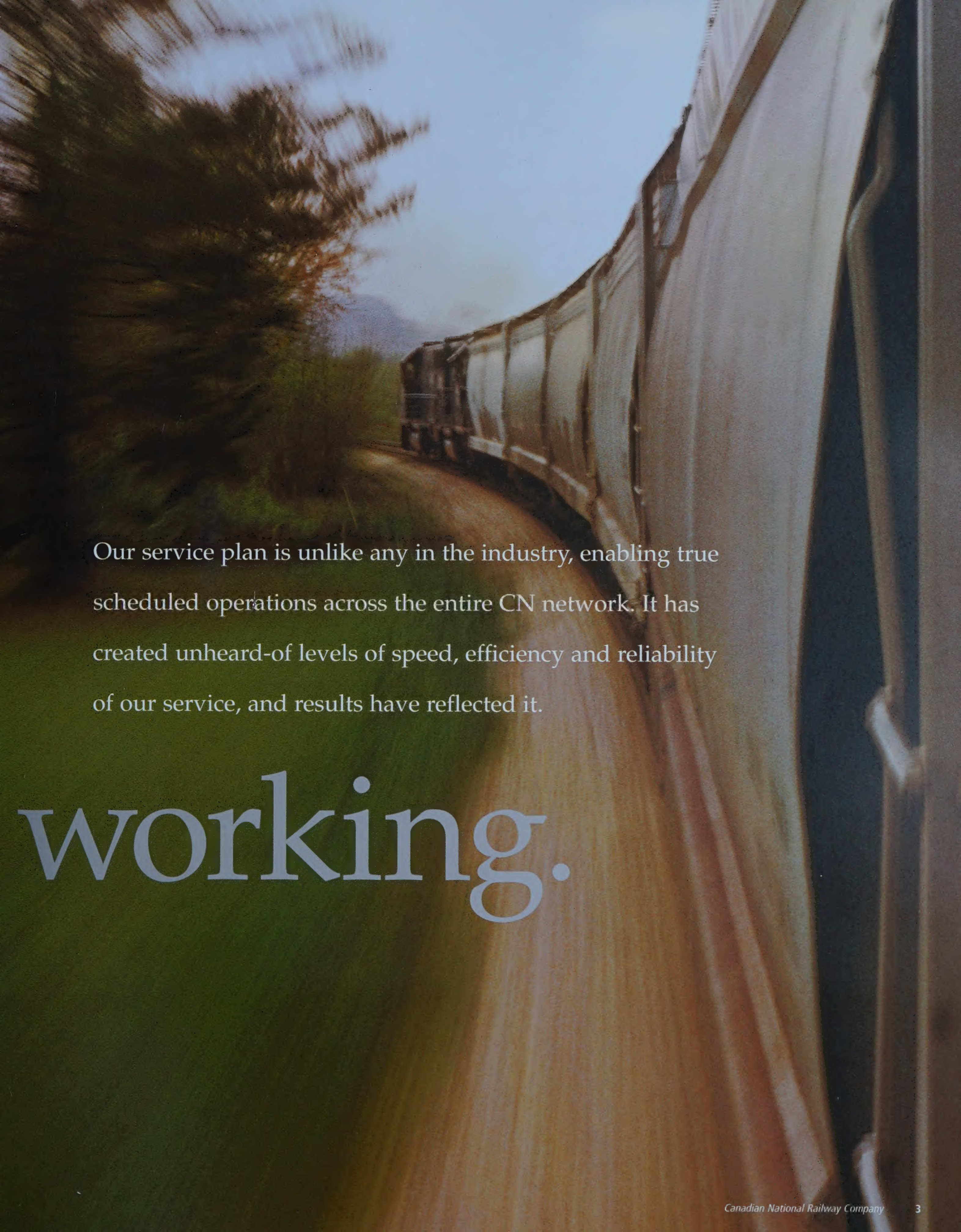
We did well our first six years. But that's in the past. Our focus is forward. On how we can deliver quality top-line growth while we continue to drive out costs. On how we can extend competitive advantage and reach for our customers. On how we can continue to increase shareholder value.

Everyone wants to know how much further we can go.
Here's our answer:

far from over.

We can go much further, for our customers, employees and investors, and that's what we are doing.

The plan is

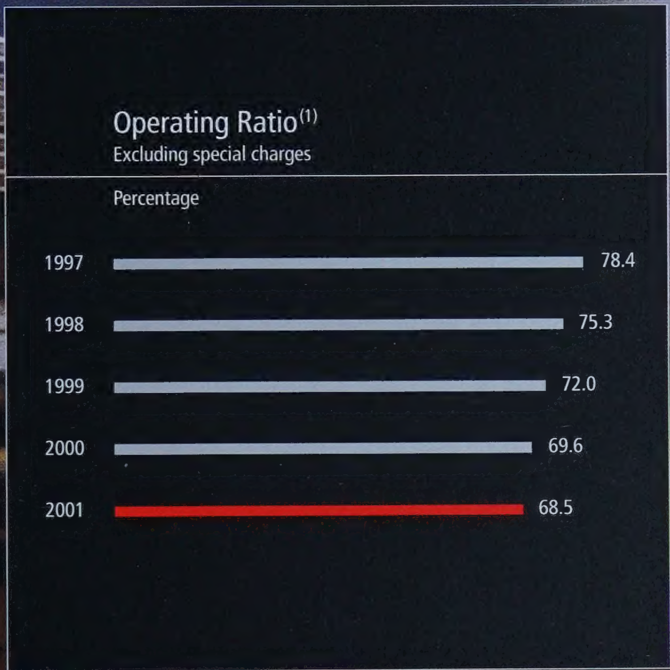


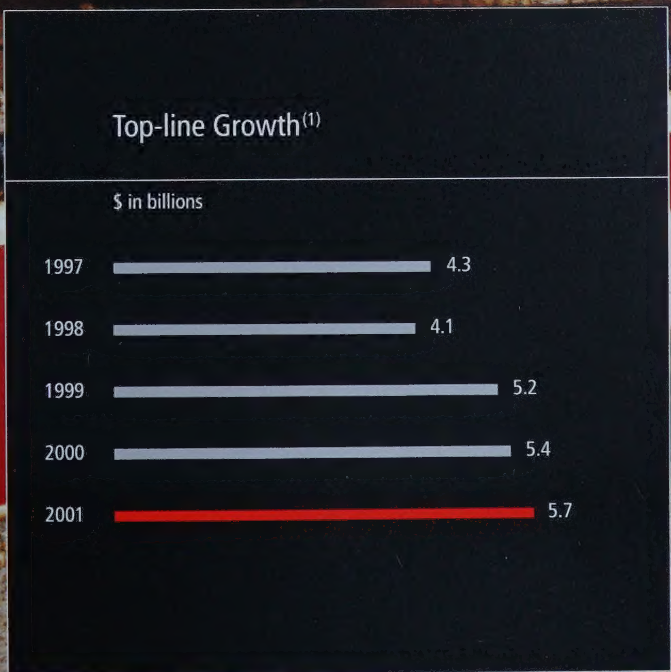
Our service plan is unlike any in the industry, enabling true scheduled operations across the entire CN network. It has created unheard-of levels of speed, efficiency and reliability of our service, and results have reflected it.

working.

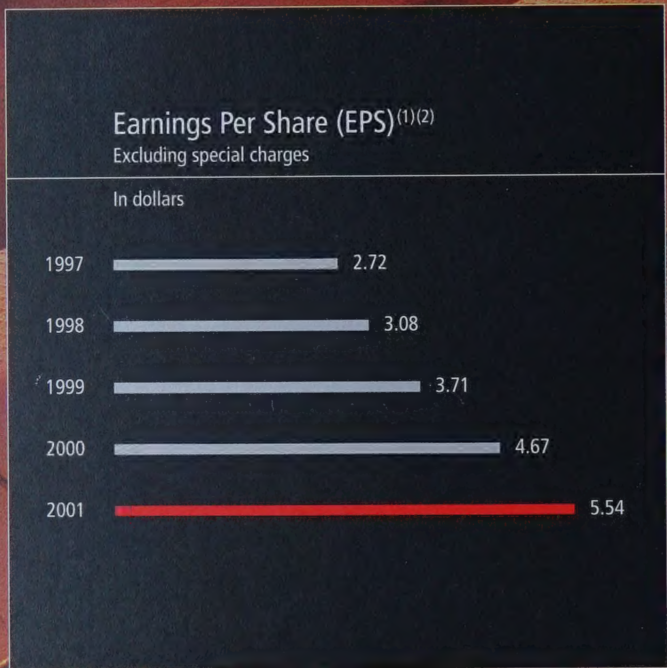
Operating Ratio Improvement and Top-line Growth

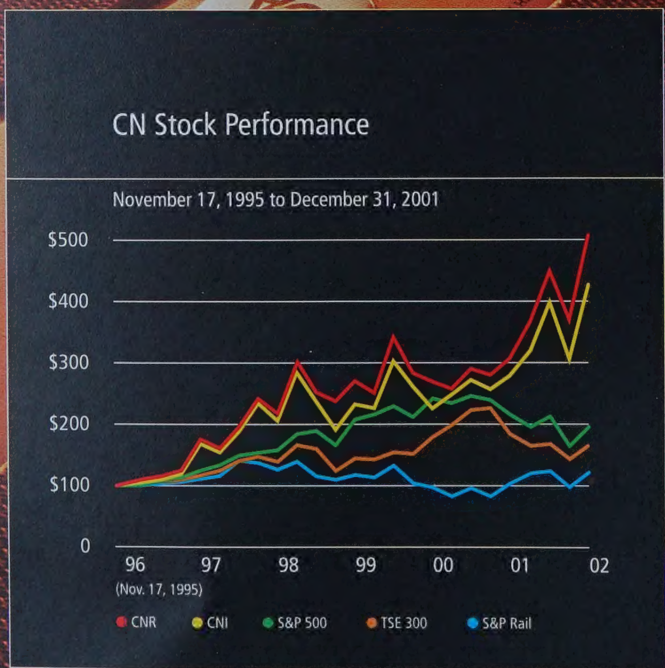
Our service plan has steadily improved the reliability and precision of our operations while allowing us to dramatically reduce assets. We've increased our top line by 46 per cent since 1995 through internal growth and acquisitions; meanwhile CN operating ratio performance has moved from worst to first among rail companies. **We can go further.**





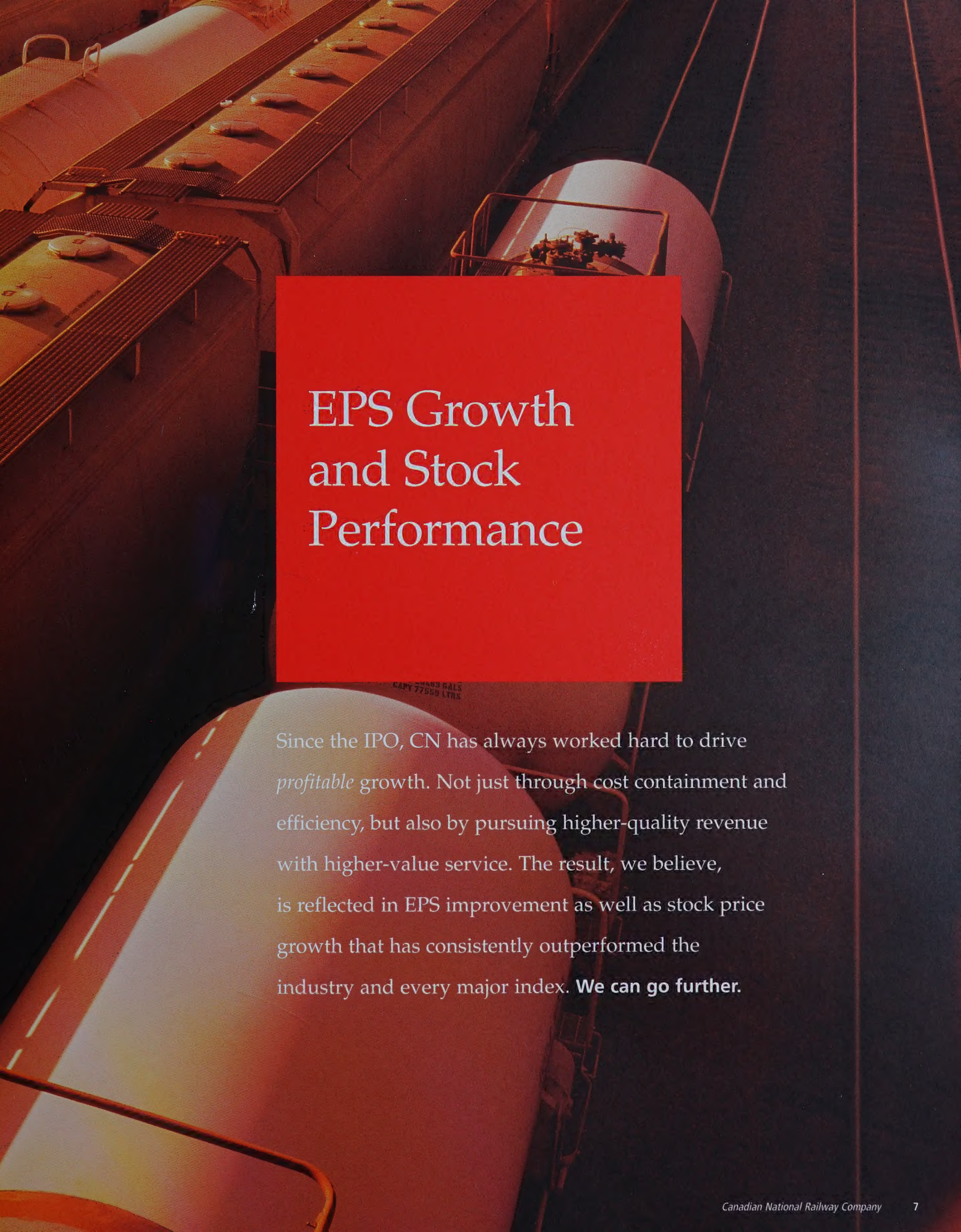
(1) The 2001 figures include Wisconsin Central Transportation Corporation from October 9, 2001.





(1) Diluted EPS before cumulative effect of changes in accounting policy and discontinued operations.

(2) The 2001 figure includes Wisconsin Central Transportation Corporation from October 9, 2001.



EPS Growth and Stock Performance

Since the IPO, CN has always worked hard to drive *profitable* growth. Not just through cost containment and efficiency, but also by pursuing higher-quality revenue with higher-value service. The result, we believe, is reflected in EPS improvement as well as stock price growth that has consistently outperformed the industry and every major index. **We can go further.**

Extending CN's Reach

We are building the railroad we envisioned by continuously and aggressively seeking to expand our network and services through acquisitions and alliances. Greater reach enhances the value we can provide our customers – which ultimately delivers growth for our investors. **We can go further.**

CN is collaborating with other railroads as hard as it competes with them to find new ways to better serve customers, reduce costs and grow the top line.

How far can

CN go?

Our drive now is to take our performance to the next level, to take our customers further than they ever thought possible for a railroad.

Further for the Canadian Wheat Board

CN delivers seamless rail service from western Canada to Mexico for grain and grain products.

Until two years ago, the Canadian Wheat Board used ocean vessels to get its product to customers in Mexico, part of a complicated chain – rail to originating port, vessel to destination port, truck to customer.

CN saw a better way. Our service plan and our North American north-south network enabled us to offer reliable, seamless single-line rail service from origin to destination. CN's aluminum hopper cars, Web-based shipment tracking and just-in-time service made rail the clear choice to improve transit performance and inventory management.

The result was a win-win. Less handling improved product quality for shippers and receivers while CN was able to convert short-haul, port-destination traffic to higher-revenue long-haul business. CN volume, shipped on behalf of the Canadian Wheat Board, increased twenty-fold from 1999 to 2001, and we see upside potential for this type of service to Mexico.

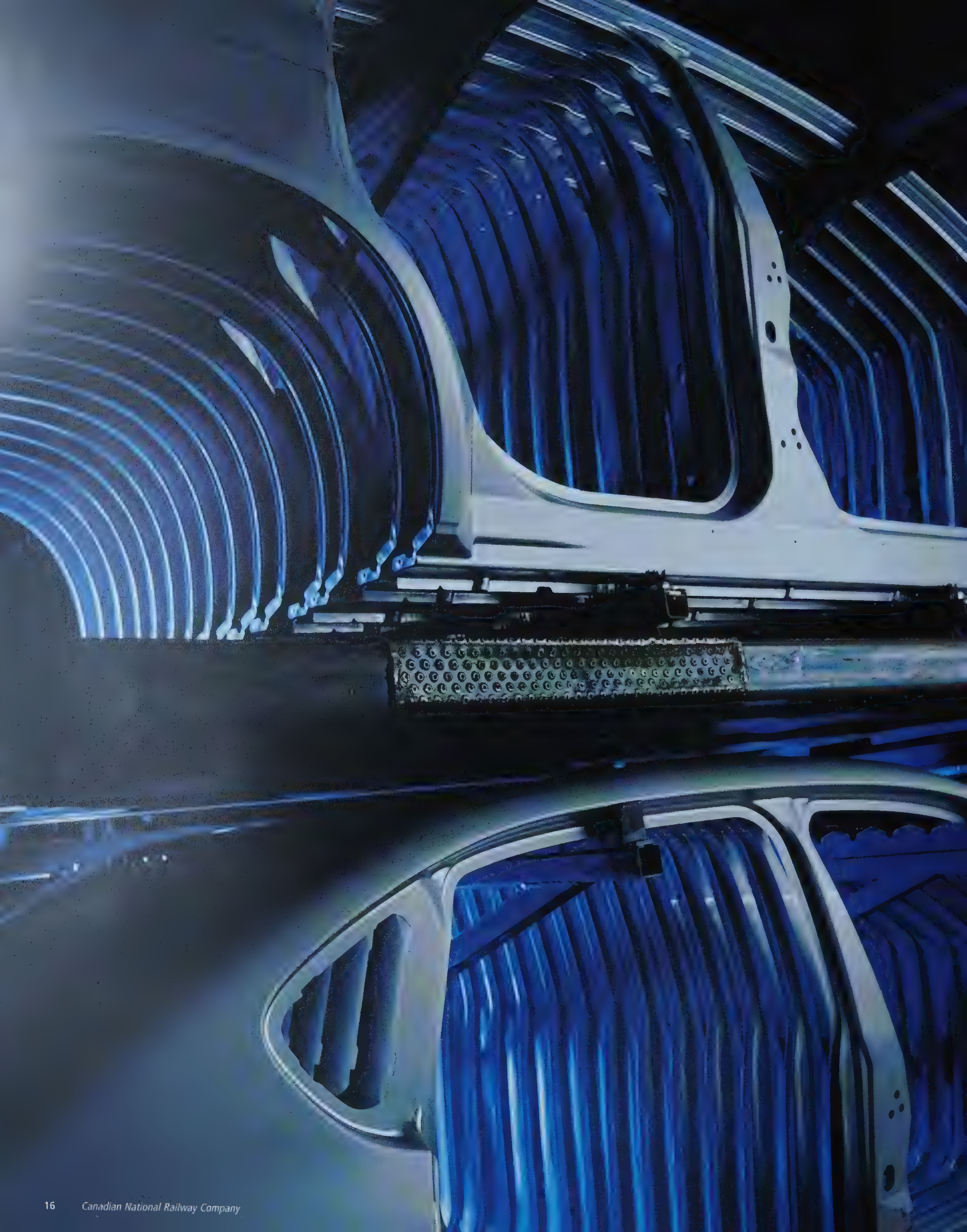
Further for Abitibi-Consolidated

The world's largest supplier of newsprint and commercial printing paper has focused on improving its transportation efficiencies by increasing rail volumes.

Abitibi-Consolidated is CN's largest forest products customer. They ship paper to major publishers and commercial printers worldwide. Since 1999, Abitibi-Consolidated and CN have been jointly exploring opportunities to increase rail volumes.

Rail has inherent cost advantages on long-haul traffic by carrying, depending on product density, up to 85 metric tons in each railcar. This has resulted in economic advantages for both CN and Abitibi-Consolidated.

Abitibi-Consolidated and CN recently renewed their commitment to continue this joint initiative to maximize rail volume.



Further for General Motors

CN works closely with Schneider Logistics to optimize rail logistics for General Motors' Service Parts Operations.

As GM's logistics partner in the highly competitive aftermarket parts business, Schneider Logistics needed optimal performance in the rail portion of the distribution chain. Schneider Logistics called CN Supply Chain Logistics.

Rail traffic flows from GM's central parts distribution center in Flint, Michigan, to 12 regional distribution hubs across the United States. Dedicated CN Logistics professionals work on-site at the Flint center to manage day-to-day rail activity, coordinating with Schneider Logistics and interfacing with a number of other rail carriers to maximize performance.

In addition to base compensation, CN Supply Chain Logistics can receive incentives that are tied to continuous improvement in asset utilization, dwell time and car supply. CN revenues have steadily improved since the beginning of the contract two years ago. GM recently expanded the agreement to include management of inbound parts supply to the Flint center.

"How far can CN go?" is a question I hear often from investors. They see our performance and wonder how much longer we can continue our excellent track record of improvement, year after year. It is a question that inspires us. It is a question that motivates us. It is a question that continually pushes us to break new ground in the North American transportation arena. My answer, spoken with absolute confidence, is this: We can go much further for customers, employees and investors. And we will.

How do I know this? Because I am not satisfied. I have said this every year. To be satisfied is to begin the process of becoming complacent. We have assembled a tremendous group of people here who share my passion for performance. CN will never be satisfied.

It was a year of profound challenge and change. Through three quarters, even though CN was performing well, 2001 was shaping up as an increasingly difficult year for the North American economy. Then, on September 11, our world changed. It was a call to action, a call for leadership and clear thinking. In these times, the importance of the transportation industry has arguably never been more clear. We at CN are committed to playing a leadership role in the myriad of issues that must be addressed, including border security.

Our performance was solid in a difficult economy. We performed well in 2001 despite the challenges of a steadily declining economic situation in North America. Our net income was $978 million, or $4.92 per diluted share, excluding non-recurring items – this was an 11 per cent increase over 2000's net income of $879 million ($4.39 per diluted share), excluding non-recurring items. Including non-recurring items, net income for 2001 was $1,040 million, or $5.23 per diluted share.

CN's operating income, excluding a workforce adjustment charge, was $1,780 million for the year 2001, compared with $1,648 million in 2000, an 8 per cent increase. Revenues for the year were $5,652 million, an increase of 4 per cent over the $5,428 million we reported in 2000. We continued to aggressively manage expenses in 2001; CN's operating expenses for the year, excluding the workforce adjustment charge, were $3,872 million, up just 2 per cent compared with $3,780 million in 2000.

And despite the challenges presented by a significantly weaker economy, we continued to improve our operating ratio, reaching 68.5 per cent, excluding the workforce adjustment charge. This was 1.1 points better than the 69.6 figure we achieved in 2000.

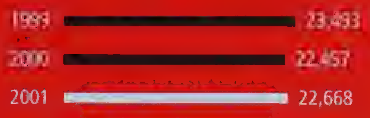
We have no intention of slowing down. We're not resting on our laurels. We are just as full of energy as ever, looking at every part of our business for new opportunities to improve.

In 2001, we successfully completed our acquisition of Wisconsin Central Transportation Corporation, receiving U.S. Surface Transportation Board (STB) approval in record time. It was a rational, logical transaction, evidenced by strong positive reviews from shippers and no opposition from our competition during the STB review process. We are proceeding with the same step-by-step integration approach that was so successful with the CN-IC merger. I am pleased to have Gordon Trafton lead this new division.

We extended our reach for intermodal customers with two new alliances: with Union Pacific for expedited

Financial summary

Employees(1)
Average for the year



Earnings per share (dollars)(1)(2)(3)
Excluding special charge

Operating ratio (percentage)(1)
Excluding special charge

CN in 2001: Solid financial performance in a difficult economy

Financial results

$ in millions, except per share data, or unless otherwise indicated	**2001**(1)	2000	1999
Revenues	**$ 5,652**	$ 5,428	$ 5,236
Operating expenses excluding special charge	**3,872**	3,780	3,769
Special charge	**98**	–	–
Operating income	**1,682**	1,648	1,467
Operating income excluding special charge	**1,780**	1,648	1,467
Interest expense	**327**	311	314
Other income	**65**	136	55
Income before cumulative effect of changes in accounting policy	**1,040**	937	746
Income before cumulative effect of changes in accounting policy excluding special charge	**1,102**	937	746
Net capital expenditures	**1,058**	1,036	989
Diluted earnings per share before cumulative effect of changes in accounting policy(3)	**5.23**	4.67	3.71
Diluted earnings per share before cumulative effect of changes in accounting policy excluding special charge(3)	**5.54**	4.67	3.71
Rail operating ratio excluding special charge *(%)*	**68.5**	69.6	72.0

(1) The 2001 figures include Wisconsin Central Transportation Corporation from October 9, 2001
(2) Before cumulative effect of changes in accounting policy
(3) 1999 per share data reflects a two-for-one stock split

service between central Canada, Michigan, Texas and Mexico City; and with CSX Intermodal for service linking Canada with the U.S. Northeast, Florida and Midwest. We intend to continue working to build strong relationships with other rail carriers to improve the reach and value we deliver for shippers.

We are determined to grow. We will continue to strive to profitably grow the company's revenues through our acquisition strategy and by leveraging the benefits of our service plan. As our service levels have improved, so has our ability to stop the downward spiral of freight rates that has plagued our industry.

We continue to grow our franchise, making progress with our business. We are making progress, but we are not satisfied.

As the customer stories in this annual report suggest, there are many opportunities to grow within the strong franchise we have worked so hard to build over the past six years. Many shippers are asking us to take a larger role in their distribution management. Our challenge is to continually and aggressively pursue opportunities to expand our relationships. We are looking to take up the challenge to go further for CN customers.

Passionate people power CN. This organization we have built, this culture with a drive for excellence, is a source of great pride for me. A unique mindset has emerged here that differentiates us. It comes from our diversity as a company, the joining of many great business and cultural traditions. It's evident in the way we solve problems, and in the way we embrace change. I call it the CN way.

The CN way is not Canadian; it is not American. It is a passion for excellence that transcends borders. It is a passion for customer service. It is an instinct to challenge convention and an openness to new ideas. But while it is the reason we have been successful in revolutionizing the rail industry thus far, we must continue to cultivate this culture throughout the organization in order to succeed over the long term.

We put it this way: Passionate people power CN. At CN, we are committed to becoming a leading company by promoting teamwork to unleash the full potential of everyone who works here; by attracting and developing the best people; by maintaining a workplace where the commitment to safety is unwavering; by respecting and rewarding passionate people.

As I mentioned before, diversity of background is a great source of strength at CN. For this reason we often seek talented people from outside the organization to help us pursue our unique vision. Two such people joined CN in 2001, Karen Phillips and Les Dakens, to become our VP of U.S. Government Affairs and Senior VP of Corporate Services, respectively. Karen has a superb background in the U.S. transportation industry, with extensive experience on the government and regulatory side. Les Dakens comes to us from H.J. Heinz Corporation, bringing Fortune 500 experience and techniques to his mandate of helping us to become one of the best places to work in North America.

I am also very pleased to welcome the Wisconsin Central employees to the CN team. I've spent a fair amount of time with WC people over the past few months. These are some of the best railroaders in the business. I look forward to their contributions to the future of CN.

Speaking of best railroaders, I would like to congratulate Hunter Harrison for being named 2002's Railroader of the Year by *Railway Age* magazine. It's a great honor that acknowledges what we at CN have known for years: Hunter is without peer in his railroading knowledge, vision and leadership.

Safety remains our highest priority. Every year I say it, and I'll say it again: Safety must always be our most enduring and preeminent value. For each and every one of our employees, safety must be anchored to an unwavering personal commitment to safeguard themselves, their colleagues and the communities we serve. For our part, CN is committed to providing proper training, procedures and tools to ensure a safe working environment where we run our trains without accident or injury. And our sense of safety responsibility compels us to team up with regulators, customers, suppliers and the communities in which we operate to ensure excellence in this critical area of our business.

We expect excellence. Regardless of economic climate, whether in times of calm or in times of crisis, *we expect to excel.* We will accept nothing less than leadership performance in all aspects of our business. There are no excuses for falling short. In fact, in many ways we have built our company to thrive in more difficult times. The strength of our balance sheet and franchise positions us to experience less impact from a downturn and recover faster when the business climate improves.

The advantages we have over other forms of transportation are even more attractive and important to shippers when the pressure intensifies to manage their processes and costs. Rail has always been the most economical transportation alternative, particularly for longer hauls or larger shipments – now, with the service levels CN is achieving, rail is more viable for more shippers than ever before. We are moving aggressively on all fronts to build upon this increased viability and become an even more valuable resource to our customers.

Thank you. It's interesting how challenging times can bring one's appreciation of positive things to a new level of focus and clarity. This is how I feel about everyone connected with CN – our people, our partners, our customers, our shareholders. Together, we have made CN what it is today. Let's redouble our efforts to show the rest of the world how far we can go.

Yours sincerely,

Paul M. Tellier
President and Chief Executive Officer

How far can CN go?

There is no limit to how far CN can go. I look beyond being just the best railroad. I see us becoming the best transportation company in North America – the best place to work, with the best people working here; the best business performer, with the most consistent track record of delivering superior results for customers, employees and shareholders, regardless of economic conditions.

We are open to any strategic move that supports this and fits within our focus. We are constrained by nothing but our own ability to think boldly and creatively. I think we have proven we are not afraid to make bold moves to go more places, to have the lowest cost structure, to be more reliable and provide more value than any other competitor, including other modes of transportation.

We are still a work in progress. We are very well known for doing exactly what we say we will do. I have no doubt that we can take this company much further.

How far can CN go? People always ask me this question in the context of how low we can get our operating ratio. I say, listen, we'll continue to make progress on that front – there are still significant opportunities to further streamline our operations and cost structure. And as our service brings more and more value, we can get more for what we do.

But it's more than operating ratio. This is about converting our service plan into growth. I tell our people this is a never-ending process of leveraging the franchise. Continuously improving service. Continuously controlling costs. This is not an initiative. This is a culture. A very important part of this equation is employee development. We have to continue to effect a cultural change across the entire organization – creating and maintaining a passion for performance in every one of our people.

We can take this business as far as we want to go if we constantly raise the bar and embrace a dynamic approach to this business. I call it action-oriented change – where we continuously explore new service offerings and other ways to push the envelope. This way, we can make meaningful, even dramatic progress. We've proven it. We're going to keep proving it.

There is no doubt that we can go much further. In fact, in some areas we are just starting.

Our strategy is to differentiate ourselves in the marketplace so that our transportation product is viewed as a service, not just a commodity. We can successfully do this because of the highly reliable product we offer customers. No longer do we sell our rail service strictly on the basis of price.

Because our customer base is much more merchandise based than other railroads, we have greater potential to convert market share from trucks. Increasing rail share from existing customers has provided and will continue to provide us with the opportunity to profitably grow CN while creating efficiency for the customer. Our expanded local sales network, which serves smaller shippers formerly ignored by railroads, is just one of the many initiatives we are pursuing to leverage our service plan. And, as our network grows through the pursuit of strategic initiatives, even greater opportunities are ahead.

How far can CN go? Our sales and marketing people are intensely focused on that very question. How can we take our customers further? How can we leverage the things that we can do better than our competition? We have tremendous potential to grow our market share by building on our speed and reliability, expanding our reach and adding value in ways that other providers either can't do or haven't thought of doing.

I am convinced that we can go much further, particularly with a rebound in the economy. Two thousand and one was a tough year. It became clear by late summer that we were actually going through a recession, amplified by the tragic events of September 11.

In the face of this adversity, CN nevertheless delivered another year of outstanding financial performance. It is easy to produce solid results when the economy is good. The true test of resilience comes when market conditions are difficult. In 2001, CN passed this test with flying colors.

Our 2001 earnings increased at a double-digit rate. Free cash flow increased even faster, and our balance sheet remains strong. These results are not accidental. They are a consequence of CN's passionate commitment to shareholder value creation.

CN's achievements continue to be rewarded with significant share appreciation. During 2001, our share price increased 73 per cent on the Toronto Stock Exchange, the best performance among large capitalizations.

There is still great potential to further drive the profitability of our franchise and to extend our reach with value-creating transactions. Accretive to earnings from day one, the Wisconsin Central acquisition is clear evidence that we can go much further with solid execution and the right strategic moves.

Two thousand and one was a year in which extraordinary events on the world stage and in our own back yard challenged us all to reexamine our priorities and reaffirm our relationships. It was a year of increasing economic challenge, accelerated by the events of September 11.

The Board and I are proud of CN's continued leadership during these uncertain times. We feel that Paul Tellier's and Hunter Harrison's vision for a different kind of railroad has been validated by the company's financial performance during the economic downturn.

In addition, Paul Tellier received the McCullough Award as Logistics Executive of the Year from the National Industrial Transportation League (NITL) and *Logistics Management & Distribution Report*, recognizing outstanding achievement and leadership in the logistics industry. This is a prestigious award, particularly significant because the NITL represents the interests of shippers in the United States.

Hunter Harrison was named 2002 Railroader of the Year by railway industry trade journal *Railway Age* for his outstanding leadership and particularly for designing and implementing the scheduled railroad at CN.

Behind Paul and Hunter, CN's bench is strong and getting stronger. The company has assembled, at every level of the business, what I feel is the finest group of people in the transportation industry – a truly diverse, North American culture where creative thinkers thrive and constant exploration for a better way is the norm.

Our Board of Directors changed during the year: In 2001, the Honorable Richard H. Kroft, C.M. and Alexander P. Lynch retired from the Board. I want to thank them both for their strong contributions to the success of this company. CN also welcomed two distinguished individuals as new members to the Board, Edith (Ede) E. Holiday and Ambassador Gordon D. Giffin.

Ms. Holiday is a Washington, D.C., attorney with senior White House and Treasury Department experience, having served as Assistant to former United States President George H. W. Bush. She was Secretary of the Cabinet between 1990 and 1993 and was General Counsel of the United States Treasury Department from 1989 to 1990. Mr. Giffin is a former United States Ambassador to Canada. He rejoined the Atlanta law firm of Long Aldridge & Norman as vice-chairman and managing partner of its Washington, D.C., office after completing his three-and-a-half year tenure as Ambassador in April 2001.

Ms. Holiday and Ambassador Giffin bring extremely valuable experience and counsel to the company as it continues to strengthen its position as North America's Railroad.

The future is bright for CN. We have continued to thrive even in adversity and our position in the transportation industry strengthens year by year. I want to thank the Board for its leadership and wisdom, our customers for working with CN, our employees for their skills and commitment, and our shareholders for their continued support.

Sincerely,

David McLean

David McLean, O.B.C., LL.D.
Chairman of the Board

Going further for our communities

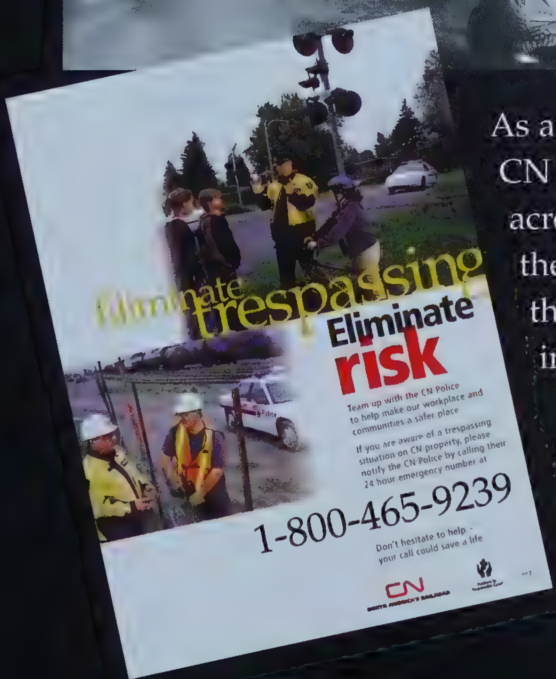
Community. As a railroad, this word has special meaning to CN. Because we pass through so many cities and towns, because our work touches the lives of so many people, we feel a special obligation to help build safer and economically stronger communities.

Many of our efforts concentrate on community safety, a natural area of focus for CN. We are actively involved in a wide spectrum of programs and activities across North America, as an organization and as individuals, including the Safe Communities Foundation, the SchoolNet GrassRoots Program, Operation Lifesaver, Responsible Care® and more. Many in CN Police generously give of their time, visiting local schools to talk about the dangers of trespassing on railroad property.

Education is another priority. We generally concentrate our support on transportation education at the university level to promote our industry and help ensure it can compete for talent in the future. Our support goes beyond capital campaigns, extending to mentoring, teaching and other activities.

We also address other needs, such as the arts, the environment, health, civic causes and human and social services. CN has a long-term commitment to United Way in both the United States and Canada, contributing more than $1 million in Canada alone in 2001.

But perhaps the best example of the spirit of CN's community commitment is in the efforts of its individuals, such as the people who work at CN's Customer Support Centre (CSC) in Winnipeg. Since the Centre opened in 1994, CSC employees have been active in a wide variety of activities, from ongoing events such as fundraisers and food drives to volunteering in support of women's shelters and other organizations like Winnipeg Harvest and Cancer Care Manitoba.



As a major supporter of the Safe Communities Foundation, CN helps support safe and healthy communities and job sites across Canada. CN people are active in local programs across the country, and we try to promote further involvement in the community by running advertisements acknowledging individual efforts.

CN works very closely with employees and local communities to eliminate the risk of accidents at level crossings and on railroad property. Young people are met with regularly to educate them about the dangers related to railroad operations.

…seven business
… of goods moving over a
…ly 18,000 route miles
… North America. CN's is
… on the continent to
… the Pacific, the Atlantic
…
… balance of our business
… to weather economic
… our potential
… competing with trucks.

Petroleum and chemicals

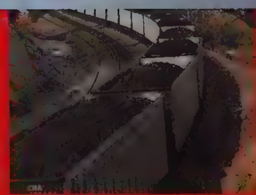
Petroleum and chemicals comprise a wide range of commodities, including chemicals, sulphur, plastics, petroleum and gas products. Most of CN's petroleum and chemical shipments are destined for customers in Canada via CN's eastern and western corridors to the Chicago gateway, and in the United States via CN's north-south route starting at the Gulf of Mexico.

Metals and minerals

CN's metals and minerals business consists primarily of nonferrous base metals, steel, equipment and parts. Exclusive access to major mines and smelters throughout North America makes CN a leader in the transportation of copper, lead, zinc concentrates, refined metals and aluminum.

Forest products

CN is the largest carrier of forest products in North America. The product lines for this business unit include various types of lumber, panels, wood chips, wood pulp, pulpwood, printing paper, linerboard and newsprint. In Canada, CN enjoys superior access to the major fiber-producing regions. In the United States, CN is strategically located to serve both the northern and southern U.S. corridors with interline capabilities to other Class 1 railroads.



Coal

CN's coal business consists of thermal and metallurgical grades of bituminous coal. Canadian thermal coal is delivered to power utilities primarily in eastern Canada. Canadian metallurgical coal is carried for export to Asian markets. U.S. thermal coal is transported from mines in southern Illinois or from western U.S. mines via interchange with other railroads to utilities in the U.S. Midwest.

Statistical summary

[illegible]	[illegible]
Carloads *(thousands)*	[illegible]
Gross ton miles *(millions)*	[illegible]
Revenue ton miles *(millions)*	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]

53% U.S. domestic and transborder
21% Overseas
26% Canadian domestic

2001 data*

Freight revenues	*(millions)*	
[illegible]	[illegible]	[illegible]
Metals and minerals	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
Coal	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
Intermodal	[illegible]	[illegible]
Automotive	[illegible]	[illegible]

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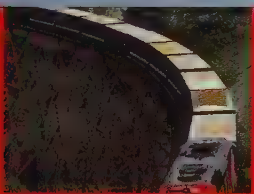


Grain and fertilizers

CN's grain and fertilizer business transports commodities grown in western Canada and the U.S. Midwest. The majority of grain and grain products carried by CN are for export. In the United States, CN handles grain grown in Illinois and Iowa for export, as well as to domestic processing facilities and feed markets. CN also serves producers of potash, ammonium nitrate, urea and other fertilizers.

Intermodal

CN's intermodal business consists of two product segments. The first segment, domestic, is responsible for consumer products and manufactured goods, operating through both retail and wholesale channels. The second, the international segment, handles import and export container traffic, serving the ports of Vancouver, Montreal, Halifax, Mobile and New Orleans.

Automotive

CN is a leading carrier of automotive products originating in southwestern Ontario and Michigan. This business unit moves both finished vehicles and parts within the United States, Canada and Mexico. CN also serves shippers of import vehicles via the ports of Halifax and Vancouver, and through interchange with other railroads.

Average length of haul – The average distance in miles one ton is carried. Computed by dividing total ton-miles by tons of freight.

Carload – A shipment of not less than 10,000 pounds of one commodity from one consignor to one consignee. An *originated carload* is one that is loaded and begins its journey on a particular railroad; a *carried carload* is any carload that travels on a particular railroad; and a *terminated carload* is a carload that ends its journey and is unloaded on a particular railroad.

Car mile – The movement of a car a distance of one mile. An *empty car mile* is a mile run by a freight car without a load; a *loaded car mile* is a mile run by a freight car with a load.

Car velocity – Car velocity is an average speed calculation, expressed in miles per day, of the car movement(s) from the time a loaded car is released by a customer to the time it is spotted empty at the next customer loading location.

Class 1 railroad – As determined by the Surface Transportation Board, a railroad with annual operating revenues that exceed a threshold indexed to a base of $250 million in 1991 dollars. The threshold in 2000 was $261.9 million.

Gross ton miles – The number of tons behind the locomotive (cars and contents, and company service equipment) multiplied by the distance moved in road freight trains.

Intermodal service – In railroad transportation, the movement of trailers or containers on railroad freight cars.

Linehaul – The movement of trains between terminals and stations on the main or branch lines of the road, exclusive of switching movements.

Main track – A track extending through and between stations upon which trains are operated.

Operating ratio – The ratio of operating expenses to operating revenues.

Regional railroad – As defined by the Association of American Railroads, a non-Class 1, linehaul, freight railroad that operates at least 350 miles of track and/or has annual operating revenues of at least $40 million.

Revenue ton mile – The movement of a ton of freight over one mile for revenue.

Right-of-way – A strip of land of various widths upon which a rail track is built.

Rolling stock – Transportation equipment on wheels, especially locomotives and freight cars.

Route miles – The miles of right-of-way operated by CN and its affiliates. In multiple main track territories only one mainline track counts as route miles.

Scheduled railroad – Running a scheduled railroad is a disciplined process that handles individual car movements according to a specific plan where possible and that manages expectations to meet agreed upon customer commitments.

Siding – A track auxiliary to the main track for meeting or passing trains, or a track for industrial purposes.

Through train – A train operated between two or more major concentration or distribution points.

Ton mile – The movement of a ton over one mile. See also revenue ton mile.

Trip plans – A trip plan is a detailed chain of train handling events describing how a car(s) can be handled from the shipper's door to the consignee's door. Trip plans are expressed in hours and are tailored for each specific customer location.

Unit train – A train with a fixed, coupled consist of cars operated continuously in shuttle service under load from origin and delivered intact at destination and returning usually for reloading at the same origin.

Waybill – The document covering a shipment and showing the forwarding and receiving stations, the name of consignor and consignee, the car initials and number, the routing, the description and weight of the commodity, instructions for special services, the rate, total charges, advances and waybill reference for previous services, and the amount prepaid.

Yard – A system of tracks within defined limits, designed for switching services.

Yard dwell – Yard dwell is the average duration, expressed in hours, that cars spend in a specific operating terminal.

Contents

Canadian National Railway Company

32 Selected Railroad Statistics
33 Management's Discussion and Analysis
45 Management Report
45 Auditors' Report
46 Consolidated Statement of Income
47 Consolidated Statement of Comprehensive Income
48 Consolidated Balance Sheet
49 Consolidated Statement of Changes in Shareholders' Equity
50 Consolidated Statement of Cash Flows

Notes to Consolidated Financial Statements

51 1 Summary of significant accounting policies
53 2 Accounting changes
53 3 Acquisition of Wisconsin Central Transportation Corporation
54 4 Accounts receivable
54 5 Properties
55 6 Other assets and deferred charges
55 7 Credit facilities
56 8 Accounts payable and accrued charges
56 9 Other liabilities and deferred credits
57 10 Long-term debt
58 11 Capital stock and convertible preferred securities
59 12 Stock plans
60 13 Pensions
61 14 Special charge
61 15 Interest expense
61 16 Other income
61 17 Income taxes
62 18 Segmented information
62 19 Earnings per share
63 20 Major commitments and contingencies
64 21 Financial instruments
65 22 Other comprehensive income (loss)
66 23 Quarterly financial data – unaudited
66 24 Comparative figures

Selected Railroad Statistics

Year ended December 31,	2001 [1]	2000	1999
Rail operations			
Freight revenues *($ millions)*	**5,457**	5,236	5,032
Gross ton miles *(millions)*	**293,857**	288,150	274,488
Revenue ton miles (RTM) *(millions)*	**153,095**	149,557	143,613
Route miles *(includes Canada and the U.S.)*	**17,986**	15,532	15,777
Operating expenses (excluding the 2001 special charge) per RTM *(cents)*	**2.53**	2.53	2.62
Freight revenue per RTM *(cents)*	**3.56**	3.50	3.50
Carloads *(thousands)*	**3,821**	3,796	3,645
Freight revenue per carload *($)*	**1,428**	1,379	1,381
Diesel fuel consumed *(liters in millions)*	**1,328**	1,292	1,250
Average fuel price *($/liter)*	**0.36**	0.33	0.23
Revenue ton miles per liter of fuel consumed	**115**	116	115
Gross ton miles per liter of fuel consumed	**221**	223	220
Diesel fuel consumed *(U.S. gallons in millions)*	**351**	341	330
Average fuel price *($/U.S. gallon)*	**1.35**	1.24	0.87
Revenue ton miles per U.S. gallon of fuel consumed	**436**	439	435
Gross ton miles per U.S. gallon of fuel consumed	**837**	845	832
Locomotive bad order ratio *(%)*	**6.4**	6.0	6.8
Freight car bad order ratio *(%)*	**5.7**	5.1	5.4 [2]
Productivity			
Operating ratio (excluding the 2001 special charge) *(%)*	**68.5**	69.6	72.0
Freight revenue per route mile *($ thousands)*	**303**	337	319
Revenue ton miles per route mile *(thousands)*	**8,512**	9,629	9,103
Freight revenue per average number of employees *($ thousands)*	**241**	233	214
Revenue ton miles per average number of employees *(thousands)*	**6,754**	6,660	6,113
Employees			
Number at end of year	**22,868**	21,378	21,563
Average number during year	**22,668**	22,457	23,493
Labor and fringe benefits expense per RTM *(cents)*	**1.01**	0.99	1.05
Injury frequency rate per 200,000 person hours	**4.4**	5.5	7.3
Accident rate per million train miles	**2.0**	2.1	2.2
Financial			
Debt to total capitalization ratio *(% at end of year)*	**45.7**	41.4	42.7
Return on assets *(% at end of year)* [3][4]	**6.3**	6.5	5.7

(1) Includes Wisconsin Central Transportation Corporation (WC) from October 9, 2001.
(2) Excludes Illinois Central Corporation.
(3) Income before cumulative effect of changes in accounting policy.
(4) 2001 calculated on a pro forma basis assuming the acquisition of WC occured on January 1, 2001.

Management's discussion and analysis relates to the financial condition and results of operations of Canadian National Railway Company (CN) together with its wholly owned subsidiaries, including Grand Trunk Corporation, Illinois Central Corporation (IC) and Wisconsin Central Transportation Corporation (WC), the latter from October 9, 2001 through December 31, 2001. As used herein, the word "Company" means, as the context requires, CN and its subsidiaries. CN's common shares are listed on the Toronto and New York stock exchanges. Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars and determined on the basis of United States generally accepted accounting principles (U.S. GAAP).

Financial results

2001 compared to 2000

The Company recorded consolidated net income of $1,040 million ($5.41 per basic share) for the year ended December 31, 2001 compared to $937 million ($4.81 per basic share) for the year ended December 31, 2000. Diluted earnings per share were $5.23 for the current year compared to $4.67 in 2000. The results for 2001 include net income of $17 million related to the acquisition of WC. Operating income was $1,682 million for 2001 compared to $1,648 million in 2000. This represents an increase of $34 million, or 2%.

The years ended December 31, 2001 and 2000 include items impacting the comparability of the results of operations. Included in 2001 is a deferred income tax recovery of $122 million ($0.63 per basic share or $0.61 per diluted share) resulting from the enactment of lower corporate tax rates in Canada, a special charge for workforce reductions of $98 million, $62 million after tax ($0.32 per basic share or $0.31 per diluted share), a charge to write down the Company's net investment in 360networks Inc. of $99 million, $71 million after tax ($0.37 per basic share or $0.35 per diluted share) and a gain of $101 million, $73 million after tax ($0.38 per basic share or $0.36 per diluted share) related to the sale of the Company's 50 percent interest in the Detroit River Tunnel Company (DRT). In 2000, the Company recorded a gain of $84 million, $58 million after tax ($0.30 per basic share or $0.28 per diluted share) related to the exchange of its minority equity investments in certain joint venture companies for 11.4 million shares of 360networks Inc.

Excluding the effects of the items discussed in the preceding paragraph, consolidated net income was $978 million ($5.09 per basic share or $4.92 per diluted share) in 2001 compared to $879 million ($4.51 per basic share or $4.39 per diluted share) in 2000. Operating income, excluding the 2001 special charge, increased by $132 million, or 8%, to $1,780 million. The operating ratio, excluding the special charge, improved to 68.5% in 2001 from 69.6% in 2000, a 1.1-point betterment.

Revenues

Revenues for the year ended December 31, 2001 totaled $5,652 million compared to $5,428 million in 2000. The increase of $224 million, or 4%, was mainly attributable to the inclusion of $129 million of WC revenues and to gains in metals and minerals, intermodal, forest products and grain and fertilizers. This was partially offset by lower automotive revenues. Revenue ton miles and freight revenue per revenue ton mile each increased by 2% as compared to 2000.

Year ended December 31,	**2001**	2000	**2001**	2000	**2001**	2000
	Revenues		Revenue ton miles		Freight revenue per revenue ton mile	
	In millions				*In cents*	
Petroleum and chemicals	**$ 923**	$ 894	**25,243**	24,858	**3.66**	3.60
Metals and minerals	**458**	392	**10,777**	9,207	**4.25**	4.26
Forest products	**1,088**	1,008	**29,639**	28,741	**3.67**	3.51
Coal	**338**	328	**15,566**	15,734	**2.17**	2.08
Grain and fertilizers	**1,161**	1,136	**42,728**	42,396	**2.72**	2.68
Intermodal	**969**	919	**26,257**	25,456	**3.69**	3.61
Automotive	**520**	559	**2,885**	3,165	**18.02**	17.66
Other items [1]	**195**	192	**–**	–	**–**	–
Total	**$5,652**	$5,428	**153,095**	149,557	**3.56**	3.50

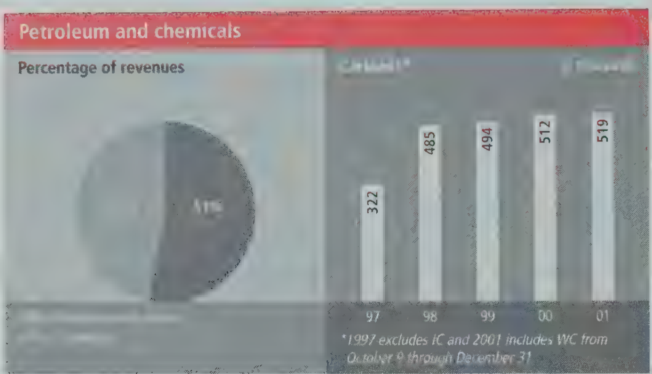
(1) Principally non-freight revenues derived from third parties.

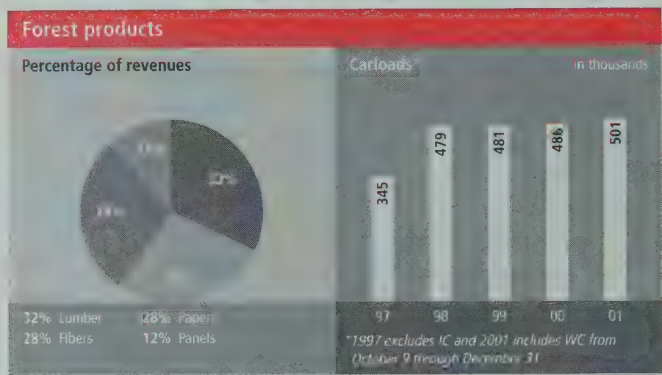
Petroleum and chemicals

Revenues for the year ended December 31, 2001 increased by $29 million, or 3%, over 2000 of which $22 million resulted from the inclusion of WC revenues. Excluding WC, growth in the year was driven by market share gains and plant expansions in the petroleum products sector, increased salt traffic, mainly in the early part of the year, and the weaker Canadian dollar. Significant weakness in sulfur demand partially offset these increases. The revenue per revenue ton mile increase of 2% for the year was mainly attributable to the effect of the weaker Canadian dollar.

Forest products

Revenues for the year ended December 31, 2001 increased by $80 million, or 8%, over 2000 of which $55 million resulted from the inclusion of WC revenues. Excluding WC, growth was driven by market share gains in the panels segment and the effect of the weaker Canadian dollar. These gains were partially offset by weakness in the pulp and paper markets due, in part, to a significant reduction in U.S. paper consumption. The increase in revenue per revenue ton mile of 5% was mainly due to the effect of the weaker Canadian dollar and the inclusion of shorter haul WC traffic.



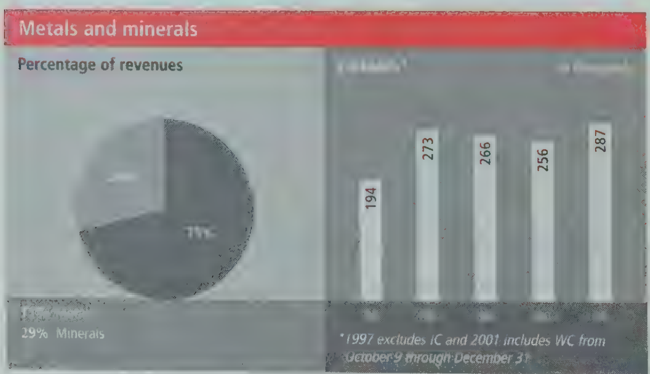


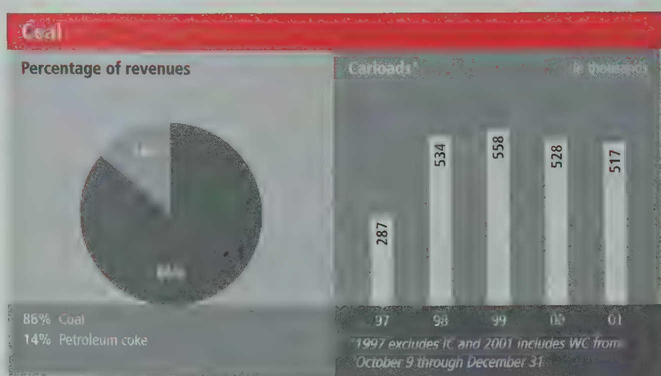
Metals and minerals

Revenues for the year ended December 31, 2001 increased by $66 million, or 17%, over 2000 of which $22 million resulted from the inclusion of WC revenues. Excluding WC, growth in the year was driven by strong Canadian aluminum exports to the United States in line with weaker U.S. production, increased levels of equipment traffic, market share gains in steel, ores and concentrates, and increased stone and rock shipments to the United States. Significant weakness in the steel markets partially offset overall growth. Revenue per revenue ton mile was essentially flat year over year.

Coal

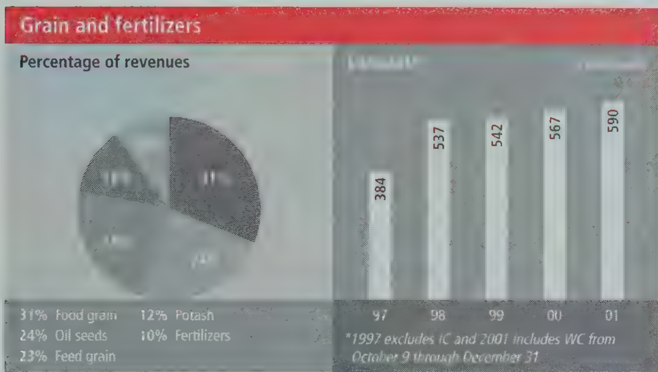
Revenues for the year ended December 31, 2001 increased by $10 million, or 3%, over 2000 of which $7 million resulted from the inclusion of WC revenues. Excluding WC, strong demand for thermal coal in the year was partially offset by reduced shipments of metallurgical coal due to the closure of some Canadian mines in 2000. The revenue per revenue ton mile increase of 4% was mainly due to an increase in rates tied to commodity prices and the effect of the weaker Canadian dollar.





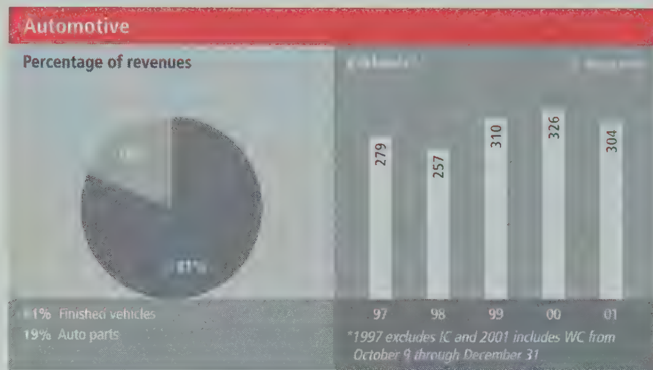
Grain and fertilizers

Revenues for the year ended December 31, 2001 increased by $25 million, or 2%, over 2000 of which $15 million resulted from the inclusion of WC revenues. Excluding WC, growth was mainly driven by higher wheat shipments to the United States, increased market share of U.S. corn and soybean traffic and higher exports of canola through Vancouver. The 1% increase in revenue per revenue ton mile was mainly due to a shift to shorter haul traffic and the effect of the weaker Canadian dollar, partially offset by the introduction of the Canadian grain revenue cap in August 2000.



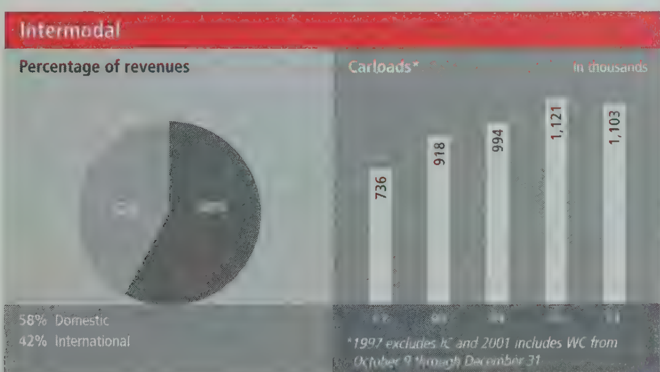
Automotive

Revenues for the year ended December 31, 2001 decreased by $39 million, or 7%, from 2000. The revenue decline resulted from weakness in North American vehicle production in 2001 and from one-time gains obtained in 2000 due, in part, to competitors' service problems. The decline was partially offset by the effect of the weaker Canadian dollar. The increase in revenue per revenue ton mile of 2% was mainly due to the weaker Canadian dollar partially offset by an increase in the average length of haul.



Intermodal

Revenues for the year ended December 31, 2001 increased by $50 million, or 5%, over 2000 of which $7 million resulted from the inclusion of WC revenues. Excluding WC, growth was driven by market share gains in the international segment and from new service offerings in the domestic segment. Weaker economic conditions in the second half of the year led to slower growth. Revenue per revenue ton mile increased by 2% due to rate increases and the effect of the weaker Canadian dollar, partially offset by a shift to longer haul traffic.



Operating expenses

Operating expenses amounted to $3,970 million in 2001 compared to $3,780 million in 2000. The increase in 2001 was mainly due to the inclusion of $86 million of WC expenses, the special charge for workforce reductions, higher fuel costs, and increased expenses for equipment rents and labor and fringe benefits. Partially offsetting these increases were lower expenses for purchased services and material. Operating expenses, excluding the special charge, amounted to $3,872 million, an increase of $92 million, or 2%, from 2000.

Dollars in millions *Year ended December 31,*	2001		2000	
	Amount	**% of revenue**	Amount	% of revenue
Labor and fringe benefits	**$1,540**	**27.2%**	$1,482	27.3%
Purchased services	**504**	**8.9%**	551	10.2%
Depreciation and amortization	**532**	**9.4%**	525	9.7%
Fuel	**484**	**8.6%**	446	8.2%
Equipment rents	**309**	**5.5%**	285	5.2%
Material	**188**	**3.3%**	195	3.6%
Operating taxes	**158**	**2.8%**	158	2.9%
Casualty and other	**157**	**2.8%**	138	2.5%
	3,872	**68.5%**	3,780	69.6%
Special charge	**98**		–	
Total	**$3,970**		$3,780	

Labor and fringe benefits: Labor and fringe benefit expenses in 2001 increased by $58 million, or 4%, as compared to 2000. The increase was mainly attributable to the inclusion of WC labor expense of $40 million, wage increases and the impact of the weaker Canadian dollar on U.S. denominated expenses. This was partially offset by lower pension and other benefit related expenses.

Purchased services: Costs of purchased services decreased by $47 million, or 9%, in 2001 as compared to 2000. The decrease was mainly due to one-time consulting and professional fees related to a proposed combination in 2000 and lower contracted services in 2001. This was partially offset by higher equipment repair expenses and $9 million resulting from the inclusion of WC purchased services expense.

Depreciation and amortization: Depreciation and amortization expense in 2001 increased by $7 million, or 1%, as compared to 2000. The effect of revised depreciation rates for certain assets mostly offset the increases related to capital additions and the inclusion of WC depreciation of $10 million.

Fuel: Fuel expense in 2001 increased by $38 million, or 9%, as compared to 2000, primarily due to an increase in the average cost of fuel and the inclusion of $10 million of WC fuel expense.

Equipment rents: These expenses increased by $24 million, or 8%, in 2001 as compared to 2000. The increase was mainly attributable to lower lease and offline car hire income and the inclusion of $6 million of WC equipment rents. This was partially offset by lower private car mileage payments.

Material: Material costs decreased by $7 million, or 4%, in 2001 as compared to 2000. The decrease was mainly due to higher recoveries in 2001 from work performed for third parties that were, in part, offset by increased locomotive and car maintenance costs and the inclusion of $3 million of WC material costs.

Operating taxes: Operating taxes remained unchanged as higher provincial capital taxes and the inclusion of $2 million of WC operating taxes were offset by provincial sales tax recoveries in 2001.

Casualty and other: These expenses increased by $19 million, or 14%, in 2001 as compared to 2000. The increase resulted from higher expenses for occupational related claims and environmental matters, and the inclusion of $6 million of WC casualty and other expense. This was partially offset by lower expenses for damaged equipment and merchandise claims.

Special charge: The Company recorded a charge of $98 million, $62 million after tax, in the second quarter of 2001 for the reduction of 690 positions (388 occurred in 2001 with the remainder planned to be completed by the end of 2002). The charge included severance and other payments to be made to affected employees.

Other

Interest expense: Interest expense increased by $16 million to $327 million for the year ended December 31, 2001 as compared to 2000. The increase was mainly due to the financing related to the acquisition of WC, the inclusion of $4 million of WC interest expense, and the impact of the weaker Canadian dollar on U.S. denominated interest costs. This was, in part, offset by the refinancing of a portion of matured debt at lower rates.

Other income: In 2001, the Company recorded other income of $65 million compared to $136 million in 2000. Included in 2001 is a charge of $99 million to write down the Company's net investment in 360networks Inc., a one-time gain of $101 million related to the sale of the Company's 50 percent interest in DRT and $11 million of WC other income. The comparative 2000 period included an $84 million gain related to the 360networks Inc. transaction.

Income tax expense: The Company recorded an income tax expense of $380 million for the year ended December 31, 2001 compared to $536 million in 2000. The decrease in income tax expense was mainly due to a $122 million deferred income tax recovery recorded in 2001 resulting from the enactment of lower corporate tax rates in Canada. Excluding this item, the effective tax rate for the year ended December 31, 2001 decreased to 35.4% from 36.4% in 2000 due mainly to lower tax rates in 2001.

2000 compared to 1999

The Company recorded consolidated net income of $937 million ($4.81 per basic share) for the year ended December 31, 2000 compared to $751 million ($3.81 per basic share) for the year ended December 31, 1999. Diluted earnings per share were $4.67 in 2000 compared to $3.74 in 1999.

The years ended December 31, 2000 and 1999 included items impacting the comparability of the results of operations. In 2000, the Company recorded a gain of $84 million, $58 million after tax ($0.30 per basic share or $0.28 per diluted share), related to the exchange of its minority equity investments in certain joint venture companies for common shares in 360networks Inc. The results for 1999 included a $5 million after-tax ($0.03 per basic and diluted share) cumulative effect of changes in accounting policy.

Excluding the effects of the items discussed herein, consolidated net income was $879 million ($4.51 per basic share or $4.39 per diluted share) in 2000 compared to $746 million ($3.78 per basic share or $3.71 per diluted share) in 1999.

Operating income was $1,648 million for 2000 compared to $1,467 million in 1999. This represented an increase of $181 million, or 12%. The operating ratio in 2000 was 69.6% compared to 72.0% in 1999.

Revenues

Revenues for the year ended December 31, 2000 totaled $5,428 million compared to $5,236 million in 1999. The increase of $192 million, or 4%, was mainly attributable to gains in automotive, intermodal and grain and fertilizers. This was partially offset by lower coal revenues. Revenue ton miles increased by 4% as compared to 1999 while freight revenue per revenue ton mile remained flat.

Year ended December 31,	2000	1999	2000	1999	2000	1999
	Revenues		Revenue ton miles		Freight revenue per revenue ton mile	
	In millions				*In cents*	
Petroleum and chemicals	$ 894	$ 878	24,858	24,194	3.60	3.63
Metals and minerals	392	398	9,207	9,271	4.26	4.29
Forest products	1,008	995	28,741	27,500	3.51	3.62
Coal	328	402	15,734	18,645	2.08	2.16
Grain and fertilizers	1,136	1,066	42,396	38,681	2.68	2.76
Intermodal	919	810	25,456	22,589	3.61	3.59
Automotive	559	483	3,165	2,733	17.66	17.67
Other items	192	204	–	–	–	–
Total	$5,428	$5,236	149,557	143,613	3.50	3.50

Petroleum and chemicals

Revenues for the year ended December 31, 2000 increased by $16 million, or 2%, over 1999. Growth in 2000 was mainly due to increased demand for petroleum gas, industrial chemicals and petrochemicals. Growth was also driven by increased production from plant expansions in the petroleum products segments. Weak market demand for polyvinyl chloride (PVC plastics) and related chemicals and sulfur exports to the United States partially offset these gains. The revenue per revenue ton mile decrease of 1% for 2000 was mainly due to changes in some contract and rate structures.

Metals and minerals

Revenues for the year ended December 31, 2000 decreased by $6 million, or 2%, as compared to 1999. The decline in 2000 reflects lower finished steel shipments due, in particular, to fewer pipeline projects in western Canada and customer production shutdowns in 2000. This is partially offset by market share gains in, as well as strength from, both the overall steel markets in the first half of 2000 and concentrate markets during 2000. The revenue per revenue ton mile decrease of 1% for 2000 was mainly due to an increase in the average length of haul.

Forest products

Revenues for 2000 grew by $13 million over 1999, representing a 1% increase. Market share gains, as well as solid demand in the paper segment, drove growth in 2000. Declining lumber shipments due to weaker commodity prices and fewer housing starts in the United States compared to 1999 partially offset these gains. The revenue per revenue ton mile decrease of 3% for 2000 can be attributed to an increase in the average length of haul. Rate pressure as a result of consolidations in the forest products industry was also a contributing factor.

Coal

Revenues for the year ended December 31, 2000 decreased by $74 million, or 18%, from 1999. Continued weak market conditions for Canadian export coal resulted in lower shipments from, and closures of, certain CN-served coal mines. This was compounded by further rate reductions which were tied to coal prices. The revenue per revenue ton mile decrease of 4% for 2000 was mainly due to reduced freight rates tied to contracted coal prices.

Grain and fertilizers

Revenues for 2000 increased by $70 million, or 7%, over 1999. The increase in 2000 was mainly driven by strong Canadian wheat and barley exports, as well as U.S. and Canadian oil seed exports. Revenue per revenue ton mile decreased by 3% for 2000 mainly due to a decline in grain rates in Canada and a shift to longer haul traffic.

Intermodal

Revenues in 2000 increased by $109 million, or 13%, in comparison to the year ended December 31, 1999. Increased container trade through the ports of Vancouver and Halifax and market share gains drove the growth in the international segment. The domestic segment benefited from strength in the North American economy as well as market share gains through enhanced service offerings. The revenue per revenue ton mile increase of 1% for 2000 is mainly due to a shift to higher yielding traffic.

Automotive

Revenues for the year ended December 31, 2000 increased by $76 million, or 16%, over 1999. The increase in revenues for 2000 reflects strong North American vehicle sales during the first nine months of 2000 and one-time gains due, in part, to competitors' service problems. The revenue per revenue ton mile for 2000 remained relatively unchanged despite an increase in the average length of haul, due to growth of higher yielding traffic.

Other items

Revenues for the year ended December 31, 2000 decreased by $12 million over 1999. The majority of the 6% decrease was attributable to a non-recurring branch line subsidy payment from the Canadian Transporttion Agency (CTA) received in 1999 relating to a claim for unprofitable lines. This was partially offset by increased revenues in 2000 for commuter services.

Operating expenses

Operating expenses amounted to $3,780 million in 2000 compared to $3,769 million in 1999. Operating expenses remained relatively flat with an increase of only $11 million due predominantly to significantly higher fuel costs and depreciation, partially offset by reductions in all other expense categories.

Dollars in millions *Year ended December 31,*	2000		1999	
	Amount	% of revenue	Amount	% of revenue
Labor and fringe benefits	$1,482	27.3%	$1,509	28.8%
Purchased services	551	10.2%	569	10.9%
Depreciation and amortization	525	9.7%	490	9.3%
Fuel	446	8.2%	308	5.9%
Equipment rents	285	5.2%	328	6.3%
Material	195	3.6%	204	3.9%
Operating taxes	158	2.9%	172	3.3%
Casualty and other	138	2.5%	189	3.6%
Total	$3,780	69.6%	$3,769	72.0%

Labor and fringe benefits: Labor and fringe benefit expenses in 2000 decreased by $27 million, or 2%, as compared to 1999. The decrease was mainly attributable to the Company's reduced workforce and lower pension related expenses, partially offset by wage increases in 2000.

Purchased services: Costs of purchased services decreased by $18 million, or 3%, in 2000 as compared to 1999. The decrease was mainly due to a new directional running agreement and higher recoveries from joint facilities. This was partially offset by higher consulting and professional fees related to a proposed combination in 2000.

Depreciation and amortization: Depreciation and amortization expense in 2000 increased by $35 million, or 7%, as compared to 1999. The increase was due to the impact of net capital additions and the acquisition, at the end of 1999, of certain equipment formerly under operating leases.

Fuel: Fuel expense in 2000 increased by $138 million, or 45%, as compared to 1999. This was largely due to a 43% increase in the average fuel price (net of the Company's fuel hedging program) as well as an increase in traffic volumes. An improvement in fuel efficiency partially offset the higher fuel costs.

Equipment rents: These expenses decreased by $43 million, or 13%, in 2000 as compared to 1999. The decrease was mainly attributable to continuing improvements in asset utilization as a result of the Company's service plan and the acquisition of certain equipment formerly under operating leases. This was partially offset by higher volumes and more foreign cars on-line.

Material: Material costs decreased by $9 million, or 4%, in 2000 as compared to 1999. This decrease was mainly a result of improved purchasing practices as well as higher recoveries from work performed for third parties.

Operating taxes: Operating taxes decreased by $14 million, or 8%, in 2000, mainly as a result of lower municipal property taxes and a refund of prior years' sales tax. This was partially offset by higher diesel fuel taxes resulting from increased volumes.

Casualty and other: These expenses decreased by $51 million, or 27%, in 2000 as compared to 1999. Lower expenses for environmental matters, damaged equipment as well as various one-time recoveries largely drove the decrease. This was partially offset by higher casualty and legal costs and bad debt expense.

Other

Interest expense: Interest expense of $311 million for the year ended December 31, 2000 remained relatively unchanged from the 1999 level.

Other income: In 2000, the Company recorded other income of $136 million compared to $55 million in 1999. This increase was mainly due to the Company's gain on the exchange of its minority equity investments in certain joint venture companies for shares of 360networks Inc.

Income tax expense: The Company recorded an income tax expense of $536 million in 2000 compared to $462 million in 1999. The effective income tax rate was 36.4% for 2000 and 38.2% in 1999. The reduced effective tax rate in 2000 reflects lower overall income taxes applicable to CN and its subsidiaries' operations in certain jurisdictions.

Liquidity and capital resources

Operating activities: Cash provided from operations was $1,621 million for the year ended December 31, 2001 compared to $1,506 million for 2000. Net income, excluding non-cash items, generated cash of $1,969 million in 2001, up from $1,698 million in 2000. Cash from operations included an increase in net proceeds of $133 million from the Company's accounts receivable securitization program. Cash generated in 2001 and 2000 was partially consumed by payments with respect to workforce reductions of $169 million and $189 million, respectively, and income tax payments of $63 million and $101 million, respectively. The provision for workforce reductions amounted to $491 million as at December 31, 2001. Cash payments with respect to these workforce reduction accruals are expected to be approximately $151 million in 2002.

Investing activities: Cash used by investing activities in 2001 amounted to $2,173 million compared to $981 million in 2000. Investing activities included $1,278 million related to the acquisition of WC as at October 9, 2001 and proceeds of $112 million from the sale of DRT. Net capital expenditures amounted to $1,058 million for the year ended December 31, 2001, an increase of $22 million over 2000. Net capital expenditures included expenditures for roadway renewal, rolling stock, and other capacity and productivity improvements.

The Company anticipates that capital expenditures for 2002 will remain at approximately the same level as 2001. This will include funds required for ongoing renewal of the basic plant and other acquisitions and investments required to improve the Company's operating efficiency and customer service.

As at December 31, 2001, the Company had commitments to acquire railroad ties at a cost of $28 million, rail at a cost of $20 million and freight cars at a cost of $4 million.

Dividends: During 2001, the Company paid dividends totaling $150 million to its shareholders at the rate of $0.195 per share per quarter.

Financing activities: Cash provided from financing activities totaled $740 million for the year ended December 31, 2001 compared to cash used of $679 million in 2000. The increase was mainly due to the issuance of debt securities in two series, U.S.$400 million (Cdn$629 million) 6.375% Notes due 2011 and U.S.$200 million (Cdn$314 million) 7.375% Debentures due 2031. At December 31, 2001, the Company had U.S.$400 million remaining for issuance under its currently effective shelf registration statement. In 2001, the Company did not repurchase any common shares under the share repurchase program, whereas in 2000, $529 million was used to repurchase common shares as part of the share repurchase program. During 2001, the Company recorded $91 million in capital lease obligations ($149 million in 2000) for capital leases related to new equipment and the exercise of purchase options on existing equipment.

Acquisition of Wisconsin Central Transportation Corporation

On January 29, 2001, the Company, through an indirect wholly owned subsidiary, and WC entered into a merger agreement (the Merger) providing for the acquisition of all of the shares of WC by the Company for an acquisition cost of $1,297 million (U.S.$831 million). The Merger was approved by the shareholders of WC at a special meeting held on April 4, 2001. On September 7, 2001, the U.S. Surface Transportation Board (STB) rendered a decision, unanimously approving the Company's acquisition of WC. On October 9, 2001, the Company completed its acquisition of WC and began a phased integration of the companies' operations. The acquisition was financed by debt and cash on hand.

The Merger involves the integration of two previously independent businesses to provide shippers enhanced rail services over a coordinated network. There can be no assurance that the Company and WC will be able to coordinate their businesses without encountering operational difficulties or experiencing the loss of key CN or WC employees or customers, or that there will be realization of rail service and other efficiencies or synergies that are expected to be derived from the Merger.

The Company accounted for the Merger using the purchase method of accounting as required by the Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards (SFAS) No. 141 "Business Combinations." As such, the Company's consolidated financial statements include the assets, liabilities and results of operations of WC as of October 9, 2001, the date of acquisition. The impact of the results of the final valuation of WC's assets and liabilities, and changes in accounting practices are not expected to have a material impact on the results of operations.

Share repurchase program

On January 23, 2001, the Board of Directors of the Company approved a share repurchase program which allowed for the repurchase of up to 10 million common shares between January 31, 2001 and January 30, 2002 pursuant to a normal course issuer bid, at prevailing market prices. At December 31, 2001, the Company had not repurchased any common shares under the share repurchase program.

Recent accounting pronouncements

In July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." Effective for the Company's fiscal year beginning January 1, 2002, the statement changes the accounting for goodwill from an amortization method to an impairment-only approach. In addition, this statement requires acquired intangible assets to be separately recognized if the benefit of the intangible assets are obtained through contractual or other legal right, or if the intangible assets can be sold, transferred, licensed, rented or exchanged. The Company does not expect SFAS No. 142 to have a material impact on its financial statements.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires the Company to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets. This statement is effective for the Company's fiscal year beginning January 1, 2003. The Company does not expect SFAS No. 143 to have a material impact on its financial statements.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 provides accounting guidance for long-lived assets to be held and used, to be disposed of other than by sale, and to be disposed of by sale. This statement is effective for the Company's fiscal year beginning January 1, 2002. The Company does not expect SFAS No. 144 to have an initial material impact on its financial statements upon adoption.

Business risks

Certain information included in this report may be "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors which may cause the outlook, the actual results or performance of the Company or the rail industry to be materially different from any future results or performance implied by such statements. Such factors include the factors set forth below as well as other risks detailed from time to time in reports filed by the Company with securities regulators in Canada and the United States.

Competition

The Company faces significant competition from a variety of carriers, including Canadian Pacific Railway Company which operates the other major rail system in Canada, serving most of the same industrial and population centers as the Company, long distance trucking companies and, in certain markets, major U.S. railroads and other Canadian and U.S. railroads. Competition is generally based on the quality and reliability of services provided, price, and the condition and suitability of carriers' equipment. Competition is particularly intense in eastern Canada where an extensive highway network and population centers, located relatively close to one another, have encouraged significant competition from trucking companies. In addition, much of the freight carried by the Company consists of commodity goods that are available from other sources in competitive markets. Factors affecting the competitive position of suppliers of these commodities, including exchange rates, could materially adversely affect the demand for goods supplied by the sources served by the Company and, therefore, the Company's volumes, revenues and profit margins.

To a greater degree than other rail carriers, the Company's subsidiary, Illinois Central Railroad Company (ICRR), is vulnerable to barge competition because its main routes are parallel to the Mississippi River system. The use of barges for some commodities, particularly coal and grain, often represents a lower cost mode of transportation. Barge competition and barge rates are affected by navigational interruptions from ice, floods and droughts, which can cause widely fluctuating barge rates. The ability of ICRR to maintain its market share of the available freight has traditionally been affected by the navigational conditions on the river.

In recent years, there has been significant consolidation of rail systems in the United States. The resulting larger rail systems are able to offer seamless services in larger market areas and effectively compete with the Company in certain markets. There can be no assurance that the Company will be able to compete effectively against current and future competitors in the railroad industry and that further consolidation within the railroad industry will not adversely affect the Company's competitive position. No assurance can be given that competitive pressures will not lead to reduced revenues, profit margins or both.

Environment

The Company's operations are subject to federal, provincial, state, municipal and local regulations under environmental laws and regulations concerning, among other things, emissions into the air; discharges into waters; the generation, handling, storage, transportation, treatment and disposal of waste, hazardous substances and other materials; decommissioning of underground and aboveground storage tanks; and soil and groundwater contamination. A risk of environmental liability is inherent in the railroad and related transportation operations; real estate ownership, operation or control; and other commercial activities of the Company with respect to both current and past operations. As a result, the Company incurs significant compliance and capital costs, on an ongoing basis, associated with environmental regulatory compliance and clean-up requirements in its railway operations and relating to its past and present ownership, operation or control of real property.

While the Company believes that it has identified the costs likely to be incurred in the next several years, based on known information, for environmental matters, the Company's ongoing efforts to identify potential environmental concerns that may be associated with its properties may lead to future environmental investigations, which may result in the identification of additional environmental costs and liabilities.

In the operation of a railroad, it is possible that derailments, explosions or other accidents may occur that could cause harm to human health or to the environment. As a result, the Company may incur costs in the future, which may be material, to address any such harm, including costs relating to the performance of clean-ups, natural resource damages and compensatory or punitive damages relating to harm to individuals or property.

The ultimate cost of known contaminated sites cannot be definitely established, and the estimated environmental liability for any given site may vary depending on the nature and extent of the contamination, the available clean-up technique, the Company's share of the costs and evolving regulatory standards governing environmental liability. Also, additional contaminated sites yet unknown may be discovered or future operations may result in accidental releases. For these reasons, there can be no assurance that material liabilities or costs related to environmental matters will not be incurred in the future, or will not have a material adverse effect on the Company's financial position or results of operations in a particular quarter or fiscal year, or that the Company's liquidity will not be adversely impacted by such environmental liabilities or costs.

As at December 31, 2001, the Company had aggregate accruals for environmental costs of $112 million ($85 million at December 31, 2000). The Company has not included any reduction in costs for anticipated recovery from insurance.

Legal actions

In the normal course of its operations, the Company becomes involved in various legal actions, including claims relating to contractual obligations, personal injuries, damage to property and environmental matters. Work-related injuries to employees, including occupational related claims, are a significant expense for the railroad industry in the United States. Employees of the Company in the United States are therefore compensated according to the provisions of the Federal Employers' Liability Act (FELA) which provides for the finding of fault, unscheduled awards and reliance on the jury system. The Company maintains, and regularly updates, casualty provisions for such items, which it considers to be adequate. The final outcome with respect to actions outstanding or pending as at December 31, 2001 cannot be predicted with certainty, and therefore, there can be no assurance that their resolution and any future claims will not have a material adverse effect on the Company's financial position or results of operations in a particular quarter or fiscal year.

Labor negotiations

Labor agreements with all Canadian unions expired on December 31, 2000. By January 2002, the Company had achieved ratified settlements with four of the labor organizations representing about 9,000 of the Company's approximately 14,350 Canadian unionized employees: the Brotherhood of Maintenance of Way Employees, the Canadian National Railway Police Association, the International Brotherhood of Electrical Workers and the Canadian Auto Workers. These agreements are for a three-year period effective until December 31, 2003.

Agreements reached by the Company with the United Transportation Union (UTU) and the Brotherhood of Locomotive Engineers (BLE), which are part of the Canadian Council of Railway Operating Unions (CCROU) (approximately 4,900 employees), are subject to ratification. The Company and the Rail Canada Traffic Controllers (RCTC) (approximately 250 employees) are still in conciliation and negotiations continue. The unions representing the employees of Algoma Central Railway Inc. (approximately 140 employees) negotiate collectively under the auspices of a Council of Trade Unions (the Council). The Company is currently in conciliation with the Council and negotiations are ongoing. Although the Company currently believes it can achieve ratified agreements with the CCROU, RCTC and the Council, there can be no assurance that their resolution will not have a material adverse effect on the Company's financial position or results of operations.

The general approach to labor negotiations by U.S. Class 1 railroads is to bargain on a collective national basis. For several years now, Grand Trunk Western (GTW), Duluth, Winnipeg and Pacific (DWP), ICRR and CCP Holdings, Inc. (CCP) have bargained on a local basis rather than holding national, industry wide negotiations. Local negotiations result in settlements that better address both the employees' concerns and preferences and the railways' actual operating environment. There are risks associated with negotiating locally. Presidents and Congress have demonstrated that they will step in to avoid national strikes, while a local dispute may not generate federal intervention, making an extended work stoppage more likely. The Company's management believes the potential mutual benefits of local bargaining outweigh the risks.

As of December 2001, the Company had in place agreements with bargaining units representing approximately 55% of the unionized workforce at ICRR, 95% at GTW and DWP, 55% at CCP and 100% at WC. These agreements have various durations, ranging from 2002 to the end of 2004. Several of these agreements will reopen in 2002.

Negotiations are ongoing with the bargaining units with which the Company has not yet achieved new settlements. Until new agreements are reached, the terms and conditions of previous agreements continue to apply. Although the Company does not anticipate work action related to these negotiations while they are ongoing, there can be no assurance that their resolution will not have a material adverse effect on the Company's financial position or results of operations.

Regulation

The Company's rail operations in Canada are subject to regulation as to (i) rate setting and network rationalization by the Canadian Transportation Agency (the CTA), under the Canada Transportation Act (Canada) (the Act), and (ii) safety by the federal Minister of Transport under the Railway Safety Act (Canada) and certain other statutes. The Company's U.S. rail operations are subject to regulation by the STB (the successor to the Interstate Commerce Commission) and the Federal Railroad Administration. In addition, the Company is subject to a variety of health, safety, labor, environmental and other regulations, all of which can affect its competitive position and profitability.

The CTA Review Panel, which was appointed by the federal government to carry out a comprehensive review of the Canadian transportation legislation, including the Act, issued its report to the Minister of Transport at the end of June 2001. It was released to the public on July 18, 2001 and contains numerous recommendations for legislative changes which, if adopted, would affect all modes of transportation, including rail. No assurance can be given that any decision by the federal government pursuant to the report's recommendations will not materially adversely affect the Company's financial position or results of operations.

Financial instruments

Although the Company conducts its business and receives revenues primarily in Canadian dollars, a growing portion of its revenues, expenses, assets and debt are denominated in U.S. dollars. Thus, the Company's results are affected by fluctuations in the exchange rate between these currencies. Changes in the exchange rate between the Canadian dollar and other currencies (including the U.S. dollar) make the goods transported by the Company more or less competitive in the world marketplace and thereby affect the Company's revenues.

The Company has limited involvement with derivative financial instruments and does not use them for trading purposes. Collateral or other security to support financial instruments subject to credit risk is usually not obtained. However, the credit standing of counterparties is regularly monitored.

To mitigate the effects of fuel price changes on its operating margins and overall profitability, the Company has a systematic hedging program which calls for regularly entering into swap positions on crude and heating oil to cover a target percentage of future fuel consumption up to two years in advance.

The realized gains and losses from the Company's fuel hedging activities were a $6 million loss and a $49 million gain for the years ended December 31, 2001 and 2000, respectively. Hedging positions and credit standings of counterparties are monitored, and losses due to counterparty non-performance are not anticipated. At December 31, 2001, the Company hedged approximately 45% of the estimated 2002 fuel consumption and 25% of the estimated 2003 fuel consumption. This represented approximately 264 million U.S. gallons at an average price of U.S.$0.607 per U.S. gallon. The Company had unrealized losses from its fuel hedging activities of $38 million at December 31, 2001, recorded in Other comprehensive income, and $17 million at December 31, 2000.

Other risks

In any given year, the Company, like other railroads, is susceptible to changes in the economic conditions of the industries and geographic areas that produce and consume the freight it transports or the supplies it requires to operate. In addition, many of the goods and commodities carried by the Company experience cyclicality in the demand for them. However, many of the bulk commodities the Company transports move offshore and are impacted more by global economic conditions than North American economic cycles. The Company's results of operations can be expected to reflect this cyclicality because of the significant fixed costs inherent in railroad operations. The Company's revenues are affected by prevailing economic conditions. Should an economic slowdown or recession occur and continue in North America or other key markets, or should major industrial restructuring take place, the volume of rail shipments carried by the Company is likely to be materially affected.

In addition to the inherent risks of the business cycle, the Company is occasionally susceptible to severe weather conditions. For example, in the first quarter of 1998, a severe ice storm hit eastern Canada, which disrupted operations and service for the railroad as well as for CN customers.

Generally accepted accounting principles require the use of historical cost as the basis of reporting in financial statements. As a result, the cumulative effect of inflation, which has significantly increased asset replacement costs for capital-intensive companies such as CN, is not reflected in operating expenses. Depreciation charges on an inflation-adjusted basis, assuming that all operating assets are replaced at current price levels, would be substantially greater than historically reported amounts.

Management Report

The accompanying consolidated financial statements of Canadian National Railway Company and all information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in conformity with generally accepted accounting principles in the United States. These statements include some amounts that are based on best estimates and judgments. Financial information used elsewhere in the annual report is consistent with that in the financial statements.

Management of the Company, in furtherance of the integrity and objectivity of data in the financial statements, has developed and maintains a system of internal accounting controls and supports an extensive program of internal audits. Management believes that this system of internal accounting controls provides reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements, and that assets are properly accounted for and safeguarded.

The Board of Directors carries out its responsibility for the financial statements in this report principally through its Audit and Finance Committee, consisting solely of outside directors. The Audit and Finance Committee reviews the Company's consolidated financial statements and annual report and recommends their approval by the Board of Directors. Also, the Audit and Finance Committee meets regularly with the Chief, Internal Audit, and with the shareholders' auditors.

These consolidated financial statements have been audited by KPMG LLP, who have been appointed as the sole auditors of the Company by the shareholders.

Claude Mongeau
Executive Vice-President and Chief Financial Officer

January 22, 2002

Serge Pharand
Vice-President and Corporate Comptroller

January 22, 2002

Auditors' Report

To the Board of Directors of Canadian National Railway Company

We have audited the consolidated balance sheets of Canadian National Railway Company as at December 31, 2001 and 2000 and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian and United States of America generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2001, in accordance with generally accepted accounting principles in the United States of America.

On January 22, 2002, we reported separately to the shareholders of the Company on consolidated financial statements for the same period, prepared in accordance with Canadian generally accepted accounting principles.

KPMG LLP

KPMG LLP
Chartered Accountants

Montreal, Canada
January 22, 2002

Consolidated Statement of Income

In millions, except per share data — *Year ended December 31,*	**2001**	2000	1999
Revenues			
Petroleum and chemicals	**$ 923**	$ 894	$ 878
Metals and minerals	**458**	392	398
Forest products	**1,088**	1,008	995
Coal	**338**	328	402
Grain and fertilizers	**1,161**	1,136	1,066
Intermodal	**969**	919	810
Automotive	**520**	559	483
Other items	**195**	192	204
Total revenues	**5,652**	5,428	5,236
Operating expenses			
Labor and fringe benefits	**1,540**	1,482	1,509
Purchased services	**504**	551	569
Depreciation and amortization	**532**	525	490
Fuel	**484**	446	308
Equipment rents	**309**	285	328
Material	**188**	195	204
Operating taxes	**158**	158	172
Casualty and other	**157**	138	189
Special charge *(Note 14)*	**98**	–	–
Total operating expenses	**3,970**	3,780	3,769
Operating income	**1,682**	1,648	1,467
Interest expense *(Note 15)*	**(327)**	(311)	(314)
Other income *(Note 16)*	**65**	136	55
Income before income taxes and cumulative effect of changes in accounting policy	**1,420**	1,473	1,208
Income tax expense *(Note 17)*	**(380)**	(536)	(462)
Income before cumulative effect of changes in accounting policy	**1,040**	937	746
Cumulative effect of changes in accounting policy (net of applicable income taxes) *(Note 2)*	**–**	–	5
Net income	**$1,040**	$ 937	$ 751
Basic earnings per share (Note 19)			
Income before cumulative effect of changes in accounting policy	**$ 5.41**	$ 4.81	$ 3.78
Net income	**$ 5.41**	$ 4.81	$ 3.81
Diluted earnings per share (Note 19)			
Income before cumulative effect of changes in accounting policy	**$ 5.23**	$ 4.67	$ 3.71
Net income	**$ 5.23**	$ 4.67	$ 3.74

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

In millions Year ended December 31,	**2001**	2000	1999
Net income	**$1,040**	$ 937	$ 751
Other comprehensive income (loss) *(Note 22)*:			
Unrealized foreign exchange gain (loss) on translation of U.S. dollar denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries	**(202)**	(91)	180
Unrealized foreign exchange gain (loss) on translation of the net investment in foreign operations	**308**	191	(202)
Unrealized holding gain (loss) on investment in 360networks Inc. *(Note 6)*	**(129)**	129	–
Unrealized holding loss on fuel derivative instruments *(Note 21)*	**(38)**	–	–
Minimum pension liability adjustment *(Note 13)*	**(17)**	–	2
Other comprehensive income (loss) before income taxes	**(78)**	229	(20)
Income tax (expense) recovery on other comprehensive income (loss) items	**(15)**	(72)	8
Other comprehensive income (loss)	**(93)**	157	(12)
Comprehensive income	**$ 947**	$1,094	$ 739

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

In millions December 31,	2001	2000
Assets		
Current assets:		
Cash and cash equivalents	$ 53	$ 15
Accounts receivable *(Note 4)*	645	726
Material and supplies	133	110
Deferred income taxes *(Note 17)*	153	114
Other	180	143
	1,164	1,108
Properties *(Note 5)*	19,145	15,638
Other assets and deferred charges *(Note 6)*	914	568
Total assets	$21,223	$17,314
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable and accrued charges *(Note 8)*	$ 1,374	$ 1,389
Current portion of long-term debt *(Note 10)*	163	434
Other	132	82
	1,669	1,905
Deferred income taxes *(Note 17)*	4,591	3,375
Other liabilities and deferred credits *(Note 9)*	1,345	1,205
Long-term debt *(Note 10)*	5,764	3,886
Convertible preferred securities *(Note 11)*	366	345
Shareholders' equity:		
Common shares *(Note 11)*	4,442	4,349
Accumulated other comprehensive income *(Note 22)*	58	151
Retained earnings	2,988	2,098
	7,488	6,598
Total liabilities and shareholders' equity	$21,223	$17,314

On behalf of the Board:

David G.A. McLean
Director

Paul M. Tellier
Director

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity

In millions	Issued and outstanding common shares	Common shares	Accumulated other comprehensive income (loss)	Retained earnings	Total shareholders' equity
Balances December 31, 1998	191.8	$ 4,141	$ 6	$ 898	$5,045
Net income	–	–	–	751	751
Shares issued *(Note 11)*	9.2	404	–	–	404
Stock options exercised and employee share plans *(Note 11, 12)*	1.4	52	–	–	52
Other comprehensive loss *(Note 22)*	–	–	(12)	–	(12)
Dividends ($0.60 per share)	–	–	–	(118)	(118)
Balances December 31, 1999	202.4	4,597	(6)	1,531	6,122
Net income	–	–	–	937	937
Stock options exercised and employee share plans *(Note 11, 12)*	1.2	47	–	–	47
Share repurchase program *(Note 11)*	(13.0)	(295)	–	(234)	(529)
Other comprehensive income *(Note 22)*	–	–	157	–	157
Dividends ($0.70 per share)	–	–	–	(136)	(136)
Balances December 31, 2000	190.6	4,349	151	2,098	6,598
Net income	–	–	–	1,040	1,040
Stock options exercised *(Note 11, 12)*	2.1	93	–	–	93
Other comprehensive loss *(Note 22)*	–	–	(93)	–	(93)
Dividends ($0.78 per share)	–	–	–	(150)	(150)
Balances December 31, 2001	**192.7**	**$4,442**	**$ 58**	**$2,988**	**$7,488**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

In millions Year ended December 31,	2001	2000	1999
Operating activities			
Net income	$1,040	$ 937	$ 751
Non-cash items in income:			
Depreciation and amortization *(Note 18)*	538	533	496
Deferred income taxes *(Note 17)*	295	312	417
Gain on sale of investments *(Note 16)*	(101)	(84)	–
Write-down of investment *(Note 6, 16)*	99	–	–
Special charge *(Note 14)*	98	–	–
Other	–	–	(7)
Changes in:			
Accounts receivable *(Note 4)*	199	80	(157)
Material and supplies	11	6	38
Accounts payable and accrued charges *(Note 8)*	(216)	32	63
Other net current assets and liabilities	(27)	(36)	(27)
Payments for workforce reductions *(Note 9)*	(169)	(189)	(219)
Other	(146)	(85)	(77)
Cash provided from operating activities	1,621	1,506	1,278
Investing activities			
Net additions to properties *(Note 18)*	(1,058)	(1,036)	(989)
Proceeds from disposal of properties	51	65	89
Acquisition of Wisconsin Central Transportation Corporation *(Note 3)*	(1,278)	–	–
Other	112	(10)	2
Cash used by investing activities	(2,173)	(981)	(898)
Dividends paid	(150)	(136)	(118)
Financing activities			
Issuance of long-term debt	4,015	860	456
Issuance of convertible preferred securities *(Note 11)*	–	–	339
Reduction of long-term debt	(3,336)	(1,038)	(1,508)
Issuance of common shares *(Note 11)*	61	28	440
Repurchase of common shares *(Note 11)*	–	(529)	–
Cash provided from (used by) financing activities	740	(679)	(273)
Net increase (decrease) in cash and cash equivalents	38	(290)	(11)
Cash and cash equivalents, beginning of year	15	305	316
Cash and cash equivalents, end of year	$ 53	$ 15	$ 305

See accompanying notes to consolidated financial statements.

Canadian National Railway Company (CN or the Company), directly and through its subsidiaries, is engaged in the rail transportation business. CN spans Canada and mid-America, from the Atlantic and Pacific oceans to the Gulf of Mexico, serving the ports of Vancouver, Prince Rupert, B.C., Montreal, Halifax, New Orleans and Mobile, Alabama, and the key cities of Toronto, Buffalo, Chicago, Detroit, Duluth, Minnesota/Superior, Wisconsin, Green Bay, Wisconsin, Minneapolis/St. Paul, Memphis, St. Louis and Jackson, Mississippi, with connections to all points in North America. CN's revenues are derived from the movement of a diversified and balanced portfolio of goods, including petroleum and chemicals, grain and fertilizers, coal, metals and minerals, forest products, intermodal and automotive.

1 Summary of significant accounting policies

These consolidated financial statements are expressed in Canadian dollars, except where otherwise indicated, and have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the period, the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements. On an ongoing basis, management reviews its estimates, including those related to litigation, environmental liabilities, casualty claims, depreciation lives, income tax liabilities, pensions and post-retirement obligations, based upon currently available information. Actual results could differ from these estimates.

A. Principles of consolidation

These consolidated financial statements include the accounts of all subsidiaries, including Wisconsin Central Transportation Corporation (WC) for which the Company acquired control and consolidated effective October 9, 2001. The Company's investments in which it has significant influence are accounted for using the equity method of accounting.

B. Revenues

Freight revenues are recognized on services performed by the Company, based on the percentage of completed service method. Costs associated with movements are recognized as the service is performed.

C. Foreign exchange

All of the Company's United States (U.S.) operations are classified as self-sustaining foreign entities with the U.S. dollar as their functional currency. The Company also has equity investments in international affiliates (United Kingdom, New Zealand and Australia) with their respective local currencies as their functional currencies. Accordingly, the U.S. operations' assets and liabilities and the Company's foreign equity investments are translated into Canadian dollars at the rate in effect at the balance sheet date and the revenues and expenses are translated at average exchange rates during the year. All adjustments resulting from the translation of the foreign operations are recorded in Other comprehensive income (Note 22).

The Company has designated all U.S. dollar denominated long-term debt of the parent company as a foreign exchange hedge of its net investment in U.S. subsidiaries. Unrealized foreign exchange gains and losses, from the date of designation, on the translation of the U.S. dollar denominated debt are also included in Other comprehensive income.

D. Cash and cash equivalents

Cash and cash equivalents include highly liquid investments purchased three months or less from maturity and are stated at cost, which approximates market value.

E. Accounts receivable

Accounts receivable are recorded at cost net of the provision for doubtful accounts. Any gains or losses on the sale of accounts receivable are calculated by comparing the carrying amount of the accounts receivable sold to the total of the cash proceeds on sale and the fair value of the retained interest in such receivables on the date of transfer. Fair values are determined on a discounted cash flow basis. Costs related to the sale of accounts receivable are recognized in earnings in the period incurred.

F. Material and supplies

The inventory is valued at weighted-average cost for ties, rails, fuel and new materials in stores, and at estimated utility or sales value for usable secondhand, obsolete and scrap materials.

G. Properties

Railroad properties are carried at cost less accumulated depreciation including asset impairment write-downs. All costs of labor, materials and other costs associated with the installation of rail, ties, ballast and other track improvements are capitalized to the extent they meet the Company's definition of "unit of property." Included in property additions are the costs of developing computer software for internal use. Maintenance costs are expensed as incurred.

1 Summary of significant accounting policies *(continued)*

The cost of railroad properties, less net salvage value, retired or disposed of in the normal course of business is charged to accumulated depreciation, in accordance with the group method of depreciation. Losses resulting from significant line sales or abandonments are recognized upon the announcement of the disposition. Gains are recognized when they are realized. The Company reviews the carrying amounts of properties whenever events or changes in circumstances indicate that such carrying amounts may not be recoverable based on future undiscounted cash flows or estimated net realizable value. Assets that are deemed impaired as a result of such review are recorded at the lower of carrying amount or fair value.

H. Depreciation

The cost of properties, net of asset impairment write-downs, is depreciated on a straight-line basis over their estimated useful lives as follows:

Asset class	Annual rate
Track and roadway	2%
Rolling stock	3%
Buildings and other	4%

The Company follows the group method of depreciation and as such conducts comprehensive depreciation studies generally every three years to assess the reasonableness of the lives of properties based upon current information, including actual results of prior years. Such a study was conducted in 2001 for the Company's Canadian properties. The study revealed that estimated depreciable lives for certain asset types had increased, and therefore, those asset lives have been extended prospectively. The current year adjustment resulted in a reduction to depreciation and amortization expense of $44 million.

I. Pensions

Pension costs are determined using actuarial methods. Pension expense is charged to operations and includes:

(i) the cost of pension benefits provided in exchange for employees' services rendered during the year,

(ii) the amortization of the initial net transition obligation on a straight-line basis over the expected average remaining service life of the employee group covered by the plans,

(iii) the amortization of past service costs and amendments over the expected average remaining service life of the employee group covered by the plans, and

(iv) the interest cost of pension obligations, the return on pension fund assets, and the amortization of cumulative unrecognized net actuarial gains and losses in excess of 10% of the greater of the projected benefit obligation or market-related value of plan assets over the expected average remaining service life of the employee group covered by the plans.

The pension plans are funded through contributions determined in accordance with the projected unit credit actuarial cost method.

J. Post-retirement benefits other than pensions

The Company accrues the cost of post-retirement benefits other than pensions. These benefits, which are funded by the Company as they become due, include life insurance programs, medical benefits, supplemental pension allowances and free rail travel benefits.

The Company amortizes the cumulative unrecognized net actuarial gains and losses in excess of 10% of the projected benefit obligation over the expected average remaining service life of the employee group covered by the plans.

K. Derivative financial instruments

The Company may use derivative financial instruments from time to time, in the management of its fuel, interest rate and foreign currency exposures. All derivative instruments are recorded on the balance sheet at fair value and the changes in fair value are recorded in earnings or Other comprehensive income depending on the nature and effectiveness of the hedge transaction. Income and expense related to hedged derivative financial instruments are recorded in the same category as that generated by the underlying asset or liability.

L. Environmental expenditures

Environmental expenditures that relate to current operations are expensed unless they relate to an improvement to the property. Expenditures that relate to an existing condition caused by past operations and which are not expected to contribute to current or future operations are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are likely, and when the costs, based on a specific plan of action in terms of the technology to be used and the extent of the corrective action required, can be reasonably estimated.

M. Income taxes

The Company follows the asset and liability method for accounting for income taxes. Under the asset and liability method, the change in the net deferred tax asset or liability is included in income. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled.

N. Recent accounting pronouncements

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets." Effective for the Company's fiscal year beginning January 1, 2002, the statement changes the accounting for goodwill from an amortization method to an impairment-only approach. In addition, this statement requires acquired intangible assets to be separately recognized if the benefit of the intangible assets are obtained through contractual or other legal right, or if the intangible assets can be sold, transferred, licensed, rented or exchanged. The Company does not expect SFAS No. 142 to have a material impact on its financial statements.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires the Company to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets. This statement is effective for the Company's fiscal year beginning January 1, 2003. The Company does not expect SFAS No. 143 to have a material impact on its financial statements.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 provides accounting guidance for long-lived assets to be held and used, to be disposed of other than by sale, and to be disposed of by sale. This statement is effective for the Company's fiscal year beginning January 1, 2002. The Company does not expect SFAS No. 144 to have an initial material impact on its financial statements upon adoption.

2 Accounting changes

The Company has made certain changes in accounting policies to conform to new accounting standards and to conform its policies to those generally accepted in the railroad industry.

2001

On January 1, 2001, the Company adopted SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities." These statements require that all derivative instruments be recorded on the balance sheet at their fair value. Changes in fair value of derivatives are recorded each period in current earnings or Other comprehensive income, depending on whether or not a derivative is designated as part of a hedge transaction and, if so, the type of hedge transaction. The initial adoption of these statements on January 1, 2001 resulted in the recognition of an unrealized loss of $17 million ($11 million after tax) in Other comprehensive income. Of that amount, $8 million ($5 million after tax) was recognized in earnings during 2001. The adoption of these statements did not have a material impact on net income for 2001 since prior to its adoption, the Company had already deferred and amortized gains and losses in the results of operations over the life of the hedged asset or liability or over the term of the derivative financial instrument. Income and expense related to the hedged derivative financial instruments were recorded in the same category as that generated by the underlying asset or liability.

1999

The Company changed its capitalization policies for certain expenditures relating to improvements of bridges and other structures and freight cars. The new policies involve capitalizing all major expenditures for work that extends the useful life and/or improves the functionality of the respective assets.

In addition, the Company changed its method of accounting for employee injury costs to reflect all elements of such costs (including compensation, health care and administration costs) based on actuarially developed estimates of the ultimate cost associated with employee injuries.

The cumulative effect of the capitalization policy changes at January 1, 1999 was a credit of $62 million (net of applicable income taxes), while the cumulative effect of the change in method of accounting for employee injury costs was a charge of $57 million (net of applicable income taxes). The impact of the accounting policy changes was to increase net income for the year ended December 31, 1999 by $12 million.

3 Acquisition of Wisconsin Central Transportation Corporation

On January 29, 2001, the Company, through an indirect wholly owned subsidiary, and WC entered into a merger agreement (the Merger) providing for the acquisition of all of the shares of WC by the Company for an acquisition cost of $1,297 million (U.S.$831 million). The Merger was approved by the shareholders of WC at a special meeting held on April 4, 2001. On September 7, 2001, the U.S. Surface Transportation Board (STB) rendered a decision, unanimously approving the Company's acquisition of WC. On October 9, 2001, the Company completed its acquisition of WC and began a phased integration of the companies' operations. The acquisition was financed by debt and cash on hand.

The Company accounted for the Merger using the purchase method of accounting as required by the FASB's SFAS No. 141 "Business Combinations." As such, the Company's consolidated financial statements include the assets, liabilities and results of operations of WC as of October 9, 2001, the date of acquisition. The following table outlines the estimated

3 Acquisition of Wisconsin Central Transportation Corporation *(continued)*

fair values of WC's assets and liabilities acquired at acquisition. The impact of the results of the final valuation of WC's assets and liabilities and changes in accounting practices are not expected to have a material impact on the results of operations.

In millions	October 9, 2001
Current assets	$ 175
Properties	2,435
Other assets and deferred charges	433
Total assets acquired	3,043
Current liabilities	353
Deferred income taxes	743
Other liabilities and deferred credits	178
Long-term debt	472
Total liabilities assumed	1,746
Net assets acquired	$1,297

The Consolidated Statement of Income for the year ended December 31, 2001 included $129 million of revenues, $43 million of operating income and $11 million of other income from WC. The acquisition of WC contributed $17 million ($0.09 per basic share or $0.08 per diluted share) to the Company's net income.

If the Company had acquired WC on January 1, 2000, based on the historical amounts reported by WC, net of the amortization of the difference between the Company's cost to acquire WC and the net assets of WC (based on preliminary estimates of the fair values of WC's properties and equipment, and estimates of their remaining useful lives, as well as estimates of the fair values of other WC assets and liabilities), revenues, net income, basic and diluted earnings per share would have been $6,090 million, $1,090 million, $5.67 per basic share and $5.48 per diluted share, respectively for the year ended December 31, 2001 and $5,961 million, $971 million, $4.98 per basic share and $4.84 per diluted share, respectively for 2000. The pro forma figures do not reflect synergies, and accordingly, do not account for any potential increases in operating income, any estimated cost savings or facilities consolidation.

4 Accounts receivable

In millions *December 31,*	**2001**	2000
Freight		
Trade	**$309**	$470
Accrued	**119**	81
Non-freight	**298**	238
	726	789
Provision for doubtful accounts	**(81)**	(63)
	$645	$726

The Company has a five-year revolving agreement, expiring in 2003, to sell eligible freight trade receivables up to a maximum of $350 million of receivables outstanding at any point in time. At December 31, 2001, pursuant to the agreement, $168 million and U.S.$113 million (Cdn$179 million) had been sold on a limited recourse basis compared to $147 million and U.S.$40 million (Cdn$61 million) at December 31, 2000. The Company has retained the responsibility for servicing, administering and collecting freight trade receivables sold. Other income included $10 million in each of 2001 and 2000 for costs related to the agreement, which fluctuate with changes in prevailing interest rates.

No servicing asset or liability has been recorded because the costs of servicing are compensated by the benefits of the agreement.

5 Properties

In millions	*December 31, 2001*			*December 31, 2000*		
	Cost	**Accumulated depreciation**	**Net**	Cost	Accumulated depreciation	Net
Track, roadway and land	**$21,582**	**$6,230**	**$15,352**	$18,217	$5,963	$12,254
Rolling stock	**3,913**	**1,456**	**2,457**	3,599	1,323	2,276
Buildings and other	**2,656**	**1,320**	**1,336**	2,309	1,201	1,108
	$28,151	**$9,006**	**$19,145**	$24,125	$8,487	$15,638
Capital leases included in properties	**$ 1,249**	**$ 209**	**$ 1,040**	$ 1,155	$ 162	$ 993

6 Other assets and deferred charges

In millions *December 31,*	**2001**	2000
Investments *(A)*	**$496**	$269
Prepaid benefit cost *(Note 13)*	**251**	166
Deferred receivables	**108**	73
Unamortized debt issue costs	**54**	49
Other	**5**	11
	$914	$568

A. Investments

Investment in English Welsh and Scottish Railway (EWS)

Through its acquisition of WC, the Company acquired 40.9% of EWS, a company which provides most of the rail freight services in Great Britain, operates freight trains through the English Channel tunnel and carries mail for the Royal Mail. The Company accounts for its investment in EWS using the equity method of accounting. The fair value of the investment in EWS was preliminarily determined based on a multiple of EWS earnings. At December 31, 2001, based upon this preliminary valuation, the carrying value of the investment was in excess of the Company's share of EWS' net assets.

Investment in Tranz Rail Holdings Limited (Tranz Rail) and Australian Transport Network Limited (ATN)

Through its acquisition of WC, the Company acquired 23.7% of Tranz Rail, a publicly traded company which operates a 2,400-route mile freight and passenger rail business in New Zealand and 33% of ATN, a company which provides substantially all commercial rail freight service in Tasmania operating a 555-route mile rail system. Tranz Rail owns another 27% of ATN. The Company accounts for both investments as "available for sale" in accordance with the FASB's Emerging Issues Task Force (EITF) 87-11, "Allocation of Purchase Price to Assets to be Sold" because its intent is to sell the investments within one year. As a result, the income or loss from the investments and any interest expense on debt incurred during the holding period to finance the purchase are allocated to the purchase price of the investments. At the time of sale, any difference between the carrying amount of the investments and the proceeds from the sale will result in a reallocation of the purchase price of WC. The fair value of the investment in Tranz Rail was preliminarily determined based on its market capitalization and that of ATN, based on a multiple of ATN earnings. The Company's equity in net income and interest expense related to Tranz Rail and ATN for the period between October 9 and December 31, 2001, allocated to the purchase price of the investments was not significant.

Investment in 360networks Inc.

In June 2001, the Company recorded a charge of $99 million, $71 million after tax, to write down 100% of its net investment in 360networks Inc. Subsequently, the Company sold all of the shares of its investee. In 2000, the Company had recorded a gain of $84 million, $58 million after tax, related to the exchange of its minority equity investments in certain joint venture companies for 11.4 million shares of 360networks Inc. Prior to the write-down, the Company accounted for its investment in 360networks Inc. in accordance with the FASB's SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The shares held were classified as "available-for-sale securities" whereby the investment was carried at market value on the balance sheet ($216 million at December 31, 2000) and the change in the value of the investment was recorded in Other comprehensive income as an unrealized holding gain. As a result of the write-down, the Company eliminated all marked-to-market adjustments related to its investment in 360networks Inc., previously recorded in Other comprehensive income.

7 Credit facilities

The Company has U.S.$1,000 million five-year revolving credit facilities which expire in March 2003. The credit facilities provide for interest on borrowings at various interest rates including the Canadian prime rate, bankers' acceptance rates, the U.S. federal funds effective rate and the London Interbank Offer Rate plus applicable margins. The credit facility agreements contain customary financial covenants, based on U.S. GAAP, including i) limitations on debt as a percentage of total capitalization, ii) maintenance of tangible net worth above predefined levels, and iii) maintenance of the fixed charge coverage ratio above predefined levels. The Company was in compliance with all of these financial covenants throughout the year. The Company's commercial paper program is backed by a portion of its revolving credit facility. As at December 31, 2001, the Company had outstanding commercial paper of U.S.$213 million (Cdn$339 million) ($77 million as at December 31, 2000) and borrowings of U.S.$172 million (Cdn$273 million) under its revolving credit facilities. During 2000, the Company did not draw on the credit facilities. Interest rates on the borrowings under the revolving credit facilities at December 31, 2001 range from 2.15% to 2.73%.

8 Accounts payable and accrued charges

In millions *December 31,*	2001	2000
Trade payables	$ 385	$ 403
Payroll-related accruals	218	194
Current portion of workforce reduction provisions	151	137
Accrued interest on long-term debt	141	126
Income and other taxes	236	244
Accrued charges	131	187
Accrued operating leases	19	31
Other	93	67
	$1,374	$1,389

9 Other liabilities and deferred credits

In millions *December 31,*	2001	2000
Personal injury and other claims	$ 379	$ 373
Workforce reduction provisions, net of current portion *(A)*	340	376
Accrual for post-retirement benefits other than pensions *(B)*	258	231
Environmental reserve, net of current portion	73	64
Deferred credits and other	295	161
	$1,345	$1,205

A. Workforce reduction provisions

The workforce reduction provisions, which cover employees in both Canada and the United States, are mainly comprised of severance payments, the majority of which will be disbursed within the next five years. Other elements of the provisions mainly include early retirement incentives and bridging to early retirement. Payments for severance and other elements of the provisions have reduced the provisions by $169 million for the year ended December 31, 2001 ($189 million for the year ended December 31, 2000). The aggregate provisions amount to $491 million at December 31, 2001.

B. Post-retirement benefits other than pensions

(i) Change in benefit obligation

In millions *Year ended December 31,*	2001	2000
Benefit obligation at beginning of year	$242	$230
Amendments	25	–
Actuarial loss	20	3
Interest cost	19	15
Service cost	11	8
Foreign currency changes	6	3
Transfer from other plans	5	–
Benefits paid	(19)	(17)
Benefit obligation at end of year	$309	$242

(ii) Funded status

In millions *December 31,*	2001	2000
Unfunded benefit obligation at end of year	$309	$242
Unrecognized net actuarial loss	(26)	(8)
Unrecognized prior service cost	(25)	(3)
Accrued benefit cost for post-retirement benefits other than pensions	$258	$231

(iii) Components of net periodic benefit cost

In millions *Year ended December 31,*	2001	2000	1999
Interest cost	$19	$15	$15
Service cost	11	8	8
Amortization of prior service cost	3	1	1
Recognized net actuarial loss	2	1	2
Net periodic benefit cost	$35	$25	$26

(iv) Weighted-average assumptions

December 31,	2001	2000	1999
Discount rate	6.97%	6.95%	7.39%
Rate of compensation increase	4.00%	4.25%	4.25%

For measurement purposes, increases in the per capita cost of covered health care benefits were assumed to be 8% for 2002 and 6% for 2001. It is assumed the rate will decrease gradually to an ultimate rate of 6% for 2004 and remain at that level thereafter.

A one-percentage-point change in the health care trend rate would not cause a material change in the Company's net periodic benefit cost nor the post-retirement benefit obligation.

10 Long-term debt

In millions	Maturity	Currency in which payable	*December 31,* 2001	2000
Bonds, debentures and notes: (A)				
Canadian National series:				
8⅞% 15-year notes	May 21, 2001	Cdn$	$ –	$ 150
6⅝% 10-year notes	May 15, 2003	U.S.$	**239**	225
7% 10-year notes	Mar. 15, 2004	U.S.$	**422**	398
6.45% Puttable Reset Securities (PURS) *(B)*	July 15, 2006	U.S.$	**398**	375
6⅜% 10-year notes *(C)*	Oct. 15, 2011	U.S.$	**636**	–
6.80% 20-year notes *(C)*	July 15, 2018	U.S.$	**318**	300
7⅝% 30-year debentures	May 15, 2023	U.S.$	**239**	225
6.90% 30-year notes *(C)*	July 15, 2028	U.S.$	**755**	712
7⅜% 30-year debentures *(C)*	Oct. 15, 2031	U.S.$	**318**	–
Illinois Central series:				
7.12% 5-year notes	Aug. 2, 2001	U.S.$	–	75
6.72% 5-year notes	Aug. 14, 2001	U.S.$	–	75
6¾% 10-year notes	May 15, 2003	U.S.$	**159**	150
7¾% 10-year notes	May 1, 2005	U.S.$	**159**	150
6.98% 12-year notes	July 12, 2007	U.S.$	**80**	75
6.63% 10-year notes	June 9, 2008	U.S.$	**32**	30
5% 99-year income debentures	Dec. 1, 2056	U.S.$	**12**	12
7.7% 100-year debentures	Sep. 15, 2096	U.S.$	**199**	187
Wisconsin Central series:				
6⅝% 10-year notes	April 15, 2008	U.S.$	**239**	–
Total bonds, debentures and notes			**4,205**	3,139
Other:				
Revolving credit facilities *(Note 7)*		U.S.$	**273**	–
Commercial paper *(D) (Note 7)*		Various	**339**	77
Capital lease obligations, amounts owing under equipment agreements and other *(E)*		Various	**1,125**	1,117
Total other			**1,737**	1,194
Subtotal			**5,942**	4,333
Less:				
Current portion of long-term debt			**163**	434
Net unamortized discount			**15**	13
			178	447
			$5,764	$3,886

A. The Company's bonds, debentures and notes are unsecured.

B. The PURS contain imbedded simultaneous put and call options at par. At the time of issuance, the Company sold the option to call the securities on July 15, 2006 (the reset date). If the call option is exercised, the imbedded put option is automatically triggered, resulting in the redemption of the original PURS. The call option holder will then have the right to remarket the securities at a new coupon rate for an additional 30-year term ending July 15, 2036. The new coupon rate will be determined according to a pre-set mechanism based on market conditions then prevailing. If the call option is not exercised, the put option is deemed to have been exercised, resulting in the redemption of the PURS on July 15, 2006.

C. These debt securities are redeemable, in whole or in part, at the option of the Company, at any time, at the greater of par and a formula price based on interest rates prevailing at the time of redemption.

D. The Company has a commercial paper program which is backed by a portion of its revolving credit facility, that enables it to issue commercial paper up to a maximum aggregate principal amount of $600 million or the U.S. dollar equivalent. Commercial paper debt is due within one year but has been classified as long-term debt, reflecting the Company's intent and contractual ability to refinance the short-term borrowing through subsequent issuances of commercial paper or drawing down on the revolving credit facility. Interest rates on commercial paper at December 31, 2001 range from approximately 1.93% to 2.6%.

10 Long-term debt *(continued)*

E. Interest rates for the capital leases range from approximately 3.14% to 14.6% with maturity dates in the years 2002 through 2025. The imputed interest on these leases amounted to $545 million as at December 31, 2001, and $559 million as at December 31, 2000.

The equipment agreements are payable by monthly or semi-annual installments over various periods to 2007 at interest rates ranging from 6% to 9.7%. The principal amounts are payable as follows: $17 million and U.S.$1 million (Cdn$2 million) as at December 31, 2001, and $26 million and U.S.$1 million (Cdn$2 million) as at December 31, 2000. The capital leases, equipment agreements, and other obligations are secured by properties with a net carrying amount of $1,108 million as at December 31, 2001 and $1,068 million as at December 31, 2000.

During 2001, the Company recorded $91 million in assets it acquired through the exercise of purchase options on existing leases and leases for new equipment ($149 million in 2000). An equivalent amount was recorded in debt.

F. Long-term debt maturities for the following fiscal years, including repurchase arrangements and capital lease repayments on debt outstanding as at December 31, 2001 but excluding repayments of commercial paper and revolving credit facilities of $339 million and $273 million, respectively, are as follows:

Year	*In millions* Amount
2002	$ 163
2003	543
2004	547
2005	229
2006	432
2007 and thereafter	3,401

G. The aggregate amount of debt payable in U.S. currency as at December 31, 2001 is U.S.$3,334 million (Cdn$5,302 million) and U.S.$2,290 million (Cdn$3,434 million) as at December 31, 2000.

11 Capital stock and convertible preferred securities

A. Authorized capital stock

The authorized capital stock of the Company is as follows:

- Unlimited number of Common Shares, without par value
- Unlimited number of Class A Preferred Shares, without par value issuable in series
- Unlimited number of Class B Preferred Shares, without par value issuable in series

B. Issued and outstanding common shares

During 2001, the Company issued 2.1 million shares (1.2 million shares in 2000 and 1.4 million shares in 1999) related to stock options exercised. The total number of common shares issued and outstanding was 192.7 million as at December 31, 2001.

In 1999, the Company issued 9.2 million common shares as a result of a public offering.

C. Convertible preferred securities

In 1999, the Company issued 4.6 million convertible preferred securities at U.S.$50 per security. These securities bear interest, payable quarterly in U.S. dollars, at a rate of 5.25% per year, and are due on June 30, 2029. These securities are subordinated securities convertible into common shares of CN at the option of the holder at an original conversion price of U.S.$38.48 per common share, representing an original conversion rate of 1.2995 common shares for each convertible preferred security. On or after July 1, 2002, at the option of CN but subject to certain conditions, the holders' rights to convert these securities may be extinguished if the current market price exceeds 120% of the conversion price for a certain period. If these conditions are met, CN may terminate the conversion rights by giving holders at least 30 days' prior written notice to convert their convertible preferred securities into common shares. If, at closing of the conversion termination date the current market price exceeds the conversion price, all holders shall be deemed to have converted, except to the extent the Trustee has been otherwise instructed by any holder.

D. Stock split

On July 20, 1999, the Board of Directors of the Company approved a two-for-one common stock split which was effected in the form of a stock dividend of one additional common share of CN common stock payable for each share outstanding or held in treasury on September 27, 1999 to shareholders of record on September 23, 1999. All equity based benefit plans reflect the issuance of additional shares or options due to the declaration of the stock split. All shares and per share data reflect the effect of the stock split.

E. Share repurchase programs

On January 23, 2001, the Board of Directors of the Company approved a share repurchase program which allowed for the repurchase of up to 10 million common shares between January 31, 2001 and January 30, 2002 pursuant to a normal course issuer bid, at prevailing market prices. At December 31, 2001, the Company had not repurchased any common shares under the share repurchase program.

In 2000, the Board of Directors of the Company approved a share repurchase program which allowed for the repurchase of up to 13 million common shares of the Company's common stock pursuant to a normal course issuer bid, at prevailing market prices. During 2000, $529 million was used to repurchase 13 million common shares at an average price of $40.70 per share.

12 Stock plans

A. Employee share plan

The Company has an Employee Share Investment Plan (ESIP) giving eligible employees the opportunity to subscribe for up to 6% of their gross salaries to purchase shares of the Company's common stock on the open market and to have the Company invest, on the employee's behalf, a further 35% of the amount invested by the employee. Participation at December 31, 2001 was 9,432 employees (7,916 at December 31, 2000). The total number of ESIP shares purchased on behalf of employees, including the Company's contributions, was 516,726 in 2001 and 637,531 in 2000, resulting in a pre-tax charge to income of $8 million, $6 million and $5 million for the years ended December 31, 2001, 2000 and 1999, respectively.

B. Mid-term incentive share unit plan

The Company has a share unit plan, which was approved by the Board of Directors in 2001, for designated senior management employees entitling them to receive payout on June 30, 2004 of a combination of common stock of the Company, as to fifty percent, and cash value, as to the remaining fifty percent.

The share units vest conditionally upon the attainment of targets relating to the Company's share price during the six-month period ending June 30, 2004. Due to the nature of the vesting conditions, no compensation expense was recognized for 2001. The total number of share units outstanding at December 31, 2001 was 421,500. At December 31, 2001, an additional 43,500 share units remained authorized for future issuances under this plan.

C. Stock options

The Company has stock option plans for eligible employees to acquire common shares of the Company upon vesting at a price equal to the market value of the common shares at the date of granting. The options are exercisable during a period not to exceed 10 years. The right to exercise options generally accrues over a period of four years of continuous employment. Options are not generally exercisable during the first 12 months after the date of grant. At December 31, 2001, an additional 5.5 million common shares remained authorized for future issuances under these plans.

Options issued by the Company include conventional options, which vest over a period of time, and performance options, which vest upon the attainment of Company targets relating to the operating ratio and unlevered return on investment. The total conventional and performance options outstanding at December 31, 2001 were 7.5 million and 2.4 million, respectively.

Changes in the Company's stock options are as follows:

	Number of options	Weighted-average exercise price
	In millions	
Outstanding at December 31, 1998 (1)	7.1	$ 29.11
Granted	3.0	$ 45.46
Canceled	(0.4)	$ 34.51
Exercised	(1.4)	$ 25.43
Outstanding at December 31, 1999 (1)	8.3	$ 34.88
Granted	2.2	$ 35.33
Canceled	(0.4)	$ 36.23
Exercised	(1.2)	$ 22.19
Outstanding at December 31, 2000 (1)	8.9	$ 34.95
Conversion of WC options	1.0	$ 58.63
Granted	2.4	$ 50.65
Canceled	(0.3)	$ 46.01
Exercised	(2.1)	$ 30.43
Outstanding at December 31, 2001 (1)(2)	**9.9**	**$43.62**

(1) Includes IC converted stock options translated to Canadian dollars using the foreign exchange rate in effect at the balance sheet date.

(2) Includes WC converted stock options translated to Canadian dollars using the foreign exchange rate in effect at the balance sheet date.

Stock options outstanding and exercisable as at December 31, 2001 were as follows:

	Options outstanding			Options exercisable	
Range of exercise prices	Number of options	Weighted-average years to expiration	Weighted-average exercise price	Number of options	Weighted-average exercise price
	In millions			*In millions*	
$13.50–$23.72	0.3	3	$ 17.90	0.3	$ 17.90
$25.40–$35.01	2.5	7	$ 33.37	1.1	$ 31.14
$35.70–$49.45	4.1	6	$ 44.38	2.7	$ 44.47
$50.02–$69.77	2.8	9	$ 51.66	0.3	$ 55.61
$70.65 and above	0.2	6	$ 94.47	0.1	$ 94.47
Balance at December 31, 2001 (1)	**9.9**	**7**	**$43.62**	**4.5**	**$41.86**

(1) Includes IC and WC converted stock options translated to Canadian dollars using the foreign exchange rate in effect at the balance sheet date.

12 Stock plans *(continued)*

D. Stock-based compensation expense

Compensation expense for certain performance-based stock-option awards under these plans is determined by the options' intrinsic value in accordance with Accounting Principles Board Opinion (APB) 25, "Accounting for Stock Issued to Employees," and related interpretations. Compensation expense recognized for stock-based awards was $19 million, $3 million and $7 million in 2001, 2000 and 1999, respectively. Had compensation expense been determined based upon fair values at the date of grant for awards under all plans, consistent with the methods of SFAS No. 123, "Accounting for Stock-Based Compensation," the Company's pro forma net income and earnings per share would have been as follows:

Year ended December 31,	**2001**	2000	1999
Net income *(in millions)*	**$1,031**	$ 917	$ 740
Basic earnings per share	**$ 5.37**	$4.70	$3.75
Diluted earnings per share	**$ 5.19**	$4.58	$3.68

These pro forma amounts include compensation cost as calculated using the Black-Scholes option-pricing model with the following assumptions:

Year ended December 31,	**2001**	2000	1999
Expected option life *(years)*	**7.0**	7.0	7.0
Risk-free interest rate	**5.36%**	5.38%	6.64%
Expected stock price volatility	**30%**	30%	30%
Average dividend per share	**$ 0.78**	$ 0.70	$ 0.60

Year ended December 31,	**2001**	2000	1999
Weighted average fair value of options	**$13.79**	$12.54	$18.93

13 Pensions

The Company has retirement benefit plans under which substantially all employees are entitled to benefits at retirement age, generally based on compensation and length of service and/or contributions. The tables that follow pertain to all such plans. However, the following descriptions relate solely to the Company's main pension plan, the CN Pension Plan (the Pension Plan). The Company's other pension plans are not significant.

Description of plan

The Pension Plan is a contributory defined benefit pension plan that covers substantially all CN employees. It provides for pensions based mainly on years of service and final average pensionable earnings and is generally applicable from the first day of employment. Indexation of pensions is provided after retirement through a gain (loss) sharing mechanism, subject to guaranteed minimum increases. An independent trust company is the Trustee of the Canadian National Railways Pension Trust Funds (CN Pension Trust Funds). As Trustee, the trust company performs certain duties which include holding legal title to the assets of the CN Pension Trust Funds and ensuring that the Company, as Administrator, complies with the provisions of the Pension Plan and the related legislation.

Funding policy

Employee contributions to the Pension Plan are determined by the plan rules. Company contributions are in accordance with the requirements of the Government of Canada legislation, The Pension Benefits Standards Act, 1985, and are determined by actuarial valuations conducted at least on a triennial basis. These valuations are made in accordance with legislative requirements and with the recommendations of the Canadian Institute of Actuaries for the valuation of pension plans.

Description of fund assets

The assets of the Pension Plan are accounted for separately in the CN Pension Trust Funds and consist of cash and short-term investments, bonds, mortgages, Canadian and foreign equities, real estate, and oil and gas assets.

(a) Change in benefit obligation

In millions *Year ended December 31,*	**2001**	2000
Benefit obligation at beginning of year	**$10,855**	$ 9,935
Interest cost	**701**	690
Actuarial loss	**94**	730
Service cost	**92**	70
Plan participants' contributions	**73**	74
Foreign currency changes	**6**	3
Benefit payments and transfers	**(665)**	(647)
Benefit obligation at end of year	**$11,156**	$10,855

(b) Change in plan assets

In millions *Year ended December 31,*	**2001**	2000
Fair value of plan assets at beginning of year	**$12,455**	$11,768
Employer contributions	**69**	59
Plan participants' contributions	**73**	74
Foreign currency changes	**6**	3
Actual return on plan assets	**(175)**	1,198
Benefit payments and transfers	**(665)**	(647)
Fair value of plan assets at end of year	**$11,763**	$12,455

(c) Funded status

In millions *December 31,*	2001	2000
Excess of fair value of plan assets over benefit obligation at end of year [1]	**$ 607**	$ 1,600
Unrecognized net actuarial gain [1]	**(537)**	(1,652)
Unrecognized net transition obligation	**39**	59
Unrecognized prior service cost	**133**	153
Net amount recognized	**$ 242**	$ 160

(1) Subject to future reduction for gain sharing under the terms of the plan.

(d) Amount recognized in the Consolidated Balance Sheet

In millions *December 31,*	2001	2000
Prepaid benefit cost *(Note 6)*	**$ 251**	$166
Accrued benefit cost	**(9)**	(6)
Additional minimum liability	**(18)**	–
Intangible asset	**1**	–
Accumulated other comprehensive income *(Note 22)*	**17**	–
Net amount recognized	**$ 242**	$160

(e) Components of net periodic benefit cost

In millions *Year ended December 31,*	2001	2000	1999
Interest cost	**$ 701**	$690	$632
Service cost	**92**	70	95
Amortization of net transition obligation	**20**	19	19
Amortization of prior service cost	**20**	19	20
Expected return on plan assets	**(846)**	(792)	(732)
Recognized net actuarial loss	**–**	–	23
Net periodic benefit cost (income)	**$ (13)**	$ 6	$ 57

(f) Weighted-average assumptions

December 31,	2001	2000	1999
Discount rate	**6.50%**	6.50%	7.00%
Rate of compensation increase	**4.00%**	4.25%	4.25%
Expected return on plan assets for year ending December 31	**9.00%**	9.00%	9.00%

As at December 31, 2001, one of the Company's pension plans had an accumulated benefit obligation ($106 million) in excess of the fair value of the plan assets ($79 million) which gives rise to an additional minimum pension liability. The projected benefit obligation was $110 million at December 31, 2001.

14 Special charge

The Company recorded a charge of $98 million, $62 million after tax, in the second quarter of 2001 for the reduction of 690 positions (388 occurred in 2001 with the remainder planned to be completed by the end of 2002). The charge included severance and other payments to be made to affected employees.

15 Interest expense

In millions *Year ended December 31,*	2001	2000	1999
Interest on long-term debt	**$329**	$322	$319
Interest income	**(2)**	(11)	(5)
	$327	$311	$314
Cash interest payments	**$322**	$315	$311

16 Other income

In millions *Year ended December 31,*	2001	2000	1999
Gain on sale of interest in Detroit River Tunnel Company *(A)*	**$101**	$ –	$ –
Gain on disposal of properties	**53**	57	56
Investment income	**30**	10	21
Foreign exchange gain	**7**	10	4
Gain on exchange of investment *(Note 6)*	**–**	84	–
Net real estate costs	**(20)**	(22)	(25)
Write-down of investment in 360networks Inc. *(Note 6)*	**(99)**	–	–
Other	**(7)**	(3)	(1)
	$ 65	$136	$ 55

A. In March 2001, the Company completed the sale of its 50 percent interest in the Detroit River Tunnel Company (DRT) for proceeds of $112 million and recorded a gain of $101 million, $73 million after tax. The DRT is a 1.6 mile rail-only tunnel crossing the Canada-U.S. border between Detroit and Windsor, Ontario.

17 Income taxes

The Company's income tax expense from income before cumulative effect of changes in accounting policy is as follows:

In millions *Year ended December 31,*	2001	2000	1999
Federal tax rate	**28.1%**	29.1%	29.1%
Income tax expense from income before income taxes and the cumulative effect of changes in accounting policy based on the Federal tax rate	**$(399)**	$(429)	$(352)
Income tax (expense) recovery resulting from:			
Provincial and other taxes	**(178)**	(180)	(196)
Deferred income tax adjustment due to rate reductions	**122**	–	–
U.S. tax rate differential	**3**	9	38
Gain on disposals and dividends	**18**	18	8
Other	**54**	46	40
Income tax expense	**$(380)**	$(536)	$(462)
Income tax expense is represented by:			
Current	**$ (85)**	$(224)	$ (45)
Deferred	**(295)**	(312)	(417)
	$(380)	$(536)	$(462)
Cash payments for income taxes	**$ 63**	$ 101	$ 45

17 Income taxes *(continued)*

Significant components of deferred income tax assets and liabilities are as follows:

In millions December 31,	2001	2000
Deferred income tax assets		
Workforce reduction provisions	$ 178	$ 202
Accruals and other reserves	182	198
Post-retirement benefits	85	91
Losses and tax credit carryforwards	53	26
	498	517
Deferred income tax liabilities		
Properties	4,936	3,778
Total net deferred income tax liability	4,438	3,261
Net current deferred income tax asset	153	114
Net long-term deferred income tax liability	$4,591	$3,375

In 2001, the Company recognized investment tax credits of $35 million not previously recognized, which reduced the cost of properties. The Company did not recognize any investment tax credits in 2000.

18 Segmented information

The Company operates in one business segment with operations and assets in Canada and the United States.

Information on geographic areas

In millions Year ended December 31,	2001	2000	1999
Revenues:			
Canadian rail	$3,675	$3,650	$3,524
U.S. rail	1,977	1,778	1,712
	$5,652	$5,428	$5,236
Operating income:			
Canadian rail *(i)*	$1,181	$1,199	$1,015
U.S. rail	501	449	452
	$1,682	$1,648	$1,467
Income before cumulative effect of changes in accounting policy:			
Canadian rail *(i)*	$ 844	$ 695	$ 565
U.S. rail	196	242	181
	$1,040	$ 937	$ 746
Depreciation and amortization:			
Canadian rail *(ii)*	$ 309	$ 336	$ 294
U.S. rail	229	197	202
	$ 538	$ 533	$ 496
Capital expenditures: (iii)			
Canadian rail *(iv)*	$ 723	$ 802	$ 954
U.S. rail	274	310	324
	$ 997	$1,112	$1,278

In millions December 31,	2001	2000
Identifiable assets:		
Canadian rail	$ 9,036	$ 8,712
U.S. rail *(v)*	12,187	8,602
	$21,223	$17,314

(i) Includes a 2001 special charge for workforce reductions of $98 million, $62 million after tax.

(ii) Includes $6 million (2000: $8 million, 1999: $6 million) of depreciation and amortization of properties related to other business activities.

(iii) Represents additions to properties that includes non-cash capital expenditures financed with capital leases and capitalized depreciation.

(iv) Includes $5 million (2000: $9 million, 1999: $11 million) of additions of properties related to other business activities.

(v) Includes equity holdings in foreign investments held by the Company's U.S. subsidiaries.

19 Earnings per share

Year ended December 31,	2001	2000	1999
Basic earnings per share			
Income before cumulative effect of changes in accounting policy	$5.41	$4.81	$3.78
Cumulative effect of changes in accounting policy	–	–	0.03
Net income	$5.41	$4.81	$3.81
Diluted earnings per share			
Income before cumulative effect of changes in accounting policy	$5.23	$4.67	$3.71
Cumulative effect of changes in accounting policy	–	–	0.03
Net income	$5.23	$4.67	$3.74

The following table provides a reconciliation between basic and diluted earnings per share:

In millions, except per share data Year ended December 31,	2001	2000	1999
Income before cumulative effect of changes in accounting policy	$1,040	$ 937	$ 746
Income impact on assumed conversion of preferred securities	12	11	6
	$1,052	$ 948	$ 752
Weighted-average shares outstanding	192.1	195.0	197.3
Effect of dilutive securities and stock options	8.9	7.8	5.2
Weighted-average diluted shares outstanding	201.0	202.8	202.5
Basic earnings per share from income before cumulative effect of changes in accounting policy	$ 5.41	$ 4.81	$ 3.78
Diluted earnings per share from income before cumulative effect of changes in accounting policy	$ 5.23	$ 4.67	$ 3.71

20 Major commitments and contingencies

A. Leases

The Company's commitments as at December 31, 2001 under operating and capital leases totaling $1,253 million and $1,449 million, respectively, with annual net minimum payments in each of the five following fiscal years to 2007 and thereafter, are as follows:

Year — In millions	Operating	Capital
2002	$ 230	$ 186
2003	196	122
2004	176	136
2005	154	95
2006	120	60
2007 and thereafter	377	850
	$1,253	1,449
Less: imputed interest on capital leases at rates ranging from approximately 3.14% to 14.6%		545
Present value of minimum lease payments at current rate included in debt		$ 904

B. Other commitments

As at December 31, 2001, the Company had commitments to acquire railroad ties at a cost of $28 million, rail at a cost of $20 million, and freight cars at a cost of $4 million. Furthermore, as at December 31, 2001, the Company had entered into agreements with fuel suppliers to purchase approximately 35% of its anticipated 2002 volume and 11% of its anticipated 2003 volume at market prices prevailing on the date of the purchase.

C. Contingencies

In the normal course of its operations, the Company becomes involved in various legal actions, including claims relating to contractual obligations, personal injuries including occupational related claims, damage to property and environmental matters. The Company maintains provisions for such items which it considers to be adequate. The final outcome with respect to actions outstanding or pending as at December 31, 2001 cannot be predicted with certainty, and therefore, there can be no assurance that their resolution and any future claims will not have a material adverse effect on the Company's financial position or results of operations in a particular quarter or fiscal year.

D. Environmental matters

The Company's operations are subject to federal, provincial, state, municipal and local regulations under environmental laws and regulations concerning, among other things, emissions into the air; discharges into waters; the generation, handling, storage, transportation, treatment and disposal of waste, hazardous substances, and other materials; decommissioning of underground and aboveground storage tanks; and soil and groundwater contamination. A risk of environmental liability is inherent in the railroad and related transportation operations; real estate ownership, operation or control; and other commercial activities of the Company with respect to both current and past operations. As a result, the Company incurs significant compliance and capital costs, on an ongoing basis, associated with environmental regulatory compliance and clean-up requirements in its railroad operations and relating to its past and present ownership, operation or control of real property.

While the Company believes that it has identified the costs likely to be incurred in the next several years, based on known information, for environmental matters, the Company's ongoing efforts to identify potential environmental concerns that may be associated with its properties may lead to future environmental investigations, which may result in the identification of additional environmental costs and liabilities. The magnitude of such additional liabilities and the costs of complying with environmental laws and containing or remediating contamination cannot be reasonably estimated due to:

(i) the lack of specific technical information available with respect to many sites;

(ii) the absence of any government authority, third-party orders, or claims with respect to particular sites;

(iii) the potential for new or changed laws and regulations and for development of new remediation technologies and uncertainty regarding the timing of the work with respect to particular sites;

(iv) the ability to recover costs from any third parties with respect to particular sites; and

therefore, the likelihood of any such costs being incurred or whether such costs would be material to the Company cannot be determined at this time. There can thus be no assurance that material liabilities or costs related to environmental matters will not be incurred in the future, or will not have a material adverse effect on the Company's financial position or results of operations in a particular quarter or fiscal year, or that the Company's liquidity will not be adversely impacted by such environmental liabilities or costs. Although the effect on operating results and liquidity cannot be reasonably estimated, management believes, based on current information, that environmental matters will not have a material adverse effect on the Company's financial condition or competitive position. Costs related to any future remediation will be accrued in the year in which they become known.

20 Major commitments and contingencies *(continued)*

As at December 31, 2001, the Company had aggregate accruals for environmental costs of $112 million ($85 million as at December 31, 2000). During 2001, payments of $14 million were applied to the provision for environmental costs compared to $11 million in 2000 and $16 million in 1999. In addition, related environmental capital expenditures were $19 million in 2001, $20 million in 2000 and $11 million in 1999. The Company also expects to incur capital expenditures relating to environmental matters of approximately $21 million in 2002 and $30 million in each of 2003 and 2004. The Company has not included any reduction in costs for anticipated recovery from insurance.

21 Financial instruments

As mentioned in Note 2, the Company adopted on January 1, 2001 SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities."

A. Risk management

The Company has limited involvement with derivative financial instruments in the management of its fuel, interest rate and foreign currency exposures, and does not use them for trading purposes.

(i) Credit risk

In the normal course of business, the Company monitors the financial condition of its customers and reviews the credit history of each new customer.

The Company is exposed to credit risk in the event of non-performance by counterparties to its derivative financial instruments but does not expect such non-performance as counterparties are of high credit quality. Collateral or other security to support financial instruments subject to credit risk is usually not obtained; however, the credit standing of counterparties is regularly monitored. The total risk associated with the Company's counterparties was immaterial at December 31, 2001. The Company believes there are no significant concentrations of credit risk.

(ii) Interest rates

For the purpose of minimizing the volatility in the fair value of certain fixed-interest long-term debt, the Company entered into interest rate swap transactions during 2000 for a total notional amount of $150 million and U.S.$50 million (Cdn$75 million) resulting in effectively converting some fixed interest rate debt into floating interest rate debt. These swaps were accounted for as fair value hedges and assumed to have no ineffectiveness pursuant to SFAS No. 133 requirements. In 2001, these swap transactions matured and the underlying debts have been repaid. The Company did not enter into any new interest rate swap transactions in 2001.

(iii) Foreign currency

Although the Company conducts its business and receives revenues primarily in Canadian dollars, a growing portion of its revenues, expenses, assets and debt are denominated in U.S. dollars. Thus, the Company's results are affected by fluctuations in the exchange rate between these currencies. Changes in the exchange rate between the Canadian dollar and other currencies (including the U.S. dollar) make the goods transported by the Company more or less competitive in the world marketplace and thereby affect the Company's revenues and expenses.

For the purpose of minimizing volatility of earnings resulting from the conversion of U.S. dollar denominated long-term debt into the Canadian dollar, the Company has designated all U.S. dollar denominated long-term debt of the parent company as a foreign exchange hedge of its net investment in U.S. subsidiaries. As a result, from the dates of designation, unrealized foreign exchange gains and losses on the translation of the Company's U.S. dollar denominated long-term debt are recorded in Other comprehensive income.

(iv) Fuel

To mitigate the effects of fuel price changes on its operating margins and overall profitability, the Company has a systematic hedging program which calls for regularly entering into swap positions on crude and heating oil to cover a target percentage of future fuel consumption up to two years in advance. The changes in the fair value of the swap positions are highly correlated to changes in the price of fuel, therefore pursuant to SFAS No. 133 requirements, these fuel hedges are being accounted for as cash flow hedges, whereby the effective portion of the cumulative change in the market value of the derivative instruments has been recorded in Other comprehensive income. The amounts accumulated in Other comprehensive income will be reclassified into income upon the ultimate consumption of the hedged fuel. To the extent that the cumulative change in the fair value of the swap positions does not offset the cumulative change in the price of fuel, the ineffective portion of the hedge will be recognized into income immediately. In the event that the fuel hedge is discontinued and the forecasted purchase of fuel is not expected to occur, the amount accumulated in Other comprehensive income would be reclassified into income immediately.

Realized gains and losses from the Company's fuel hedging activities were $6 million loss, $49 million gain and $5 million gain for the years ended December 31, 2001, 2000 and 1999, respectively. At December 31, 2001, the Company has hedged approximately 45% of the estimated 2002 fuel consumption and 25% of the estimated 2003 fuel consumption. This represents approximately 264 million U.S. gallons at an average price of U.S.$0.607 per U.S. gallon.

At December 31, 2001, Accumulated other comprehensive income included an unrealized loss of $38 million, of which $31 million relates to derivative transactions that will mature within the next year. The requirements of SFAS No. 133 did not have a significant impact on

the Consolidated Statement of Income since the Company's derivative instruments have been highly effective in hedging the changes in cash flows associated with forecasted purchases of diesel fuel. The Company did not recognize any material gains or losses in 2001 due to fuel hedge ineffectiveness.

(v) Other
The Company does not currently have any derivative instruments not designated as hedging instruments.

B. Fair value of financial instruments
Generally accepted accounting principles define the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. The Company uses the following methods and assumptions to estimate the fair value of each class of financial instruments for which the carrying amounts are included in the Consolidated Balance Sheet under the following captions:

(i) Cash and cash equivalents, Accounts receivable, Accounts payable and accrued charges, and Other current liabilities:
The carrying amounts approximate fair value because of the short maturity of these instruments.

(ii) Other assets and deferred charges:
Investments: The Company has various debt and equity investments for which the carrying value approximates the fair value, with the exception of a cost investment for which the fair value was estimated based on CN's proportionate share of its net assets.

(iii) Long-term debt:
The fair value of the Company's long-term debt is estimated based on the quoted market prices for the same or similar debt instruments, as well as discounted cash flows using current interest rates for debt with similar terms, company rating, and remaining maturity.

(iv) Convertible preferred securities:
The fair value of the Company's convertible preferred securities is estimated based on the quoted market price.

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments as at December 31, 2001 and 2000 for which the carrying values on the Consolidated Balance Sheet are different from the fair values:

In millions	***December 31, 2001***		*December 31, 2000*	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets				
Investments	**$ 496**	**$ 551**	$ 269	$ 315
Financial liabilities				
Long-term debt (including current portion)	**$5,927**	**$5,986**	$4,320	$4,191
Convertible preferred securities	**$ 366**	**$ 479**	$ 345	$ 315

22 Other comprehensive income (loss)

A. Components of Other comprehensive income (loss) and the related tax effects are as follows:

In millions	***Year ended December 31, 2001***		
	Before tax amount	**Income tax (expense) recovery**	**Net of tax amount**
Unrealized foreign exchange gain (loss) on translation of U.S. dollar denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries	**$(202)**	**$ 71**	**$(131)**
Unrealized foreign exchange gain (loss) on translation of the net investment in foreign operations	**308**	**(108)**	**200**
Unrealized holding loss on investment in 360networks Inc. *(Note 6)*	**(129)**	**35**	**(94)**
Unrealized holding loss on fuel derivative instruments *(Note 21)*	**(38)**	**13**	**(25)**
Minimum pension liability adjustment	**(17)**	**6**	**(11)**
Deferred income tax (DIT) rate enactment	**–**	**(32)**	**(32)**
Other comprehensive income (loss)	**$ (78)**	**$ (15)**	**$ (93)**

In millions	*Year ended December 31, 2000*		
	Before tax amount	Income tax (expense) recovery	Net of tax amount
Unrealized foreign exchange gain (loss) on translation of U.S. dollar denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries	$ (91)	$ 34	$ (57)
Unrealized foreign exchange gain (loss) on translation of the net investment in U.S. subsidiaries	191	(71)	120
Unrealized holding gain on investment in 360networks Inc. *(Note 6)*	129	(35)	94
Other comprehensive income (loss)	$ 229	$(72)	$157

In millions	*Year ended December 31, 1999*		
	Before tax amount	Income tax (expense) recovery	Net of tax amount
Unrealized foreign exchange gain (loss) on translation of U.S. dollar denominated long-term debt designated as a hedge of the net investment in IC	$ 180	$ (69)	$ 111
Unrealized foreign exchange gain (loss) on translation of the net investment in IC	(202)	78	(124)
Minimum pension liability adjustment	2	(1)	1
Other comprehensive income (loss)	$ (20)	$ 8	$ (12)

22 Other comprehensive income (loss) *(continued)*

B. Changes in the balances of each classification within Accumulated other comprehensive income (loss) are as follows:

In millions

	Foreign exchange – U.S.$ debt	Foreign exchange – Net investment in foreign operations	Holding gain (loss) on 360networks Inc. investment	Holding loss on fuel derivative instruments	Minimum pension liability adjustment	DIT rate enactment	Accumulated other comprehensive income (loss)
Balance at January 1, 1999	$(144)	$ 151	$ –	$ –	$ (1)	$ –	$ 6
Period change	111	(124)	–	–	1	–	(12)
Balance at December 31, 1999	(33)	27	–	–	–	–	(6)
Period change	(57)	120	94	–	–	–	157
Balance at December 31, 2000	(90)	147	94	–	–	–	151
Period change	(131)	200	(94)	(25)	(11)	(32)	(93)
Balance at December 31, 2001	**$(221)**	**$ 347**	**$ –**	**$(25)**	**$(11)**	**$(32)**	**$ 58**

23 Quarterly financial data – unaudited

In millions, except per share data

	2001				2000			
	Fourth	**Third**	**Second**	**First**	Fourth	Third	Second	First
Revenues	**$1,537**	**$1,325**	**$1,392**	**$1,398**	$1,393	$1,330	$1,333	$1,372
Operating income	**$ 521**	**$ 430**	**$ 346**	**$ 385**	$ 441	$ 407	$ 418	$ 382
Net income	**$ 296**	**$ 252**	**$ 217**	**$ 275**	$ 237	$ 216	$ 230	$ 254
Basic earnings per share	**$ 1.54**	**$ 1.31**	**$ 1.13**	**$ 1.44**	$ 1.24	$ 1.12	$ 1.18	$ 1.27
Diluted earnings per share	**$ 1.48**	**$ 1.27**	**$ 1.10**	**$ 1.39**	$ 1.20	$ 1.09	$ 1.15	$ 1.24
Dividend declared per share	**$0.195**	**$0.195**	**$0.195**	**$0.195**	$0.175	$0.175	$0.175	$0.175

24 Comparative figures

Certain figures, previously reported for 2000 and 1999, have been reclassified to conform with the basis of presentation adopted in the current year.

Contents

Canadian National Railway Company

68 Management's Discussion and Analysis
80 Management Report
80 Auditors' Report
81 Consolidated Statement of Income
82 Consolidated Balance Sheet
83 Consolidated Statement of Changes in Shareholders' Equity
84 Consolidated Statement of Cash Flows

The CN Pension Plan and the CN 1935 Pension Plan

103 General Review
104 Trustee's Report
105 Actuary's Report
105 Auditors' Report
106 Consolidated Statement of Net Assets at Market Value
107 Consolidated Statement of Changes in Net Assets at Market Value
108 Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

85 1 Summary of significant accounting policies
87 2 Accounting changes
87 3 Acquisition of Wisconsin Central Transportation Corporation
88 4 Accounts receivable
88 5 Properties
89 6 Other assets and deferred charges
89 7 Credit facilities
90 8 Accounts payable and accrued charges
90 9 Other liabilities and deferred credits
91 10 Long-term debt
92 11 Capital stock and convertible preferred securities
93 12 Stock plans
94 13 Pensions
95 14 Special charge
95 15 Interest expense
95 16 Other income
95 17 Income taxes
96 18 Segmented information
96 19 Earnings per share
96 20 Major commitments and contingencies
97 21 Financial instruments
99 22 Reconciliation of Canadian and United States generally accepted accounting principles
102 23 Quarterly financial data – unaudited
102 24 Comparative figures

Management's discussion and analysis relates to the financial condition and results of operations of Canadian National Railway Company (CN) together with its wholly owned subsidiaries, including Grand Trunk Corporation, Illinois Central Corporation (IC) and Wisconsin Central Transportation Corporation (WC), the latter from October 9, 2001 through December 31, 2001. As used herein, the word "Company" means, as the context requires, CN and its subsidiaries. CN's common shares are listed on the Toronto and New York stock exchanges. Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars and determined on the basis of Canadian generally accepted accounting principles (Canadian GAAP).

Financial results

2001 compared to 2000

The Company recorded consolidated net income of $727 million ($3.72 per basic share) for the year ended December 31, 2001 compared to $774 million ($3.91 per basic share) for the year ended December 31, 2000. Diluted earnings per share were $3.62 for the current year compared to $3.82 in 2000. The results for 2001 include net income of $11 million related to the acquisition of WC. Operating income was $1,366 million for 2001 compared to $1,385 million in 2000. This represents a decrease of $19 million, or 1%.

The years ended December 31, 2001 and 2000 include items impacting the comparability of the results of operations. Included in 2001 is a special charge for workforce reductions of $98 million, $62 million after tax ($0.32 per basic share or $0.31 per diluted share), a charge to write down the Company's net investment in 360networks Inc. of $99 million, $77 million after tax ($0.40 per basic share or $0.38 per diluted share) and a gain of $101 million, $82 million after tax ($0.42 per basic share or $0.41 per diluted share) related to the sale of the Company's 50 percent interest in the Detroit River Tunnel Company (DRT). In 2000, the Company recorded a gain of $84 million, $58 million after tax ($0.30 per basic share or $0.28 per diluted share) related to the exchange of its minority equity investments in certain joint venture companies for 11.4 million shares of 360networks Inc.

Excluding the effects of the items discussed in the preceding paragraph, consolidated net income was $784 million ($4.02 per basic share or $3.90 per diluted share) in 2001 compared to $716 million ($3.61 per basic share or $3.54 per diluted share) in 2000. Operating income, excluding the 2001 special charge, increased by $79 million, or 6%, to $1,464 million. The operating ratio, excluding the special charge, improved to 74.1% in 2001 from 74.6% in 2000, a half-point betterment.

Revenues

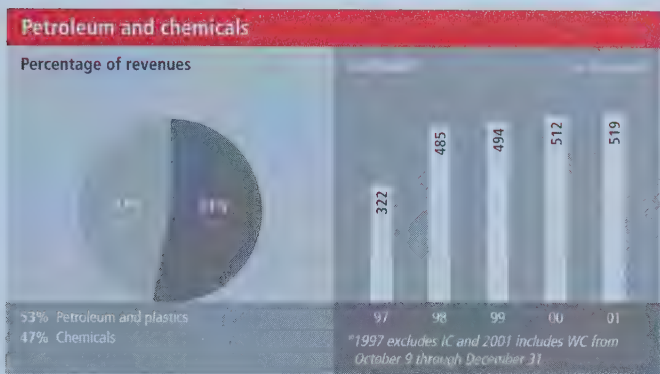
Revenues for the year ended December 31, 2001 totaled $5,652 million compared to $5,446 million in 2000. The increase of $206 million, or 4%, was mainly attributable to the inclusion of $129 million of WC revenues and to gains in metals and minerals, intermodal, forest products and grain and fertilizers. This was partially offset by lower automotive revenues. Revenue ton miles and freight revenue per revenue ton mile each increased by 2% as compared to 2000.

Year ended December 31,	**2001**	2000	**2001**	2000	**2001**	2000
	Revenues		Revenue ton miles		Freight revenue per revenue ton mile	
	In millions				*In cents*	
Petroleum and chemicals	**$ 923**	$ 894	**25,243**	24,858	**3.66**	3.60
Metals and minerals	**458**	392	**10,777**	9,207	**4.25**	4.26
Forest products	**1,088**	1,008	**29,639**	28,741	**3.67**	3.51
Coal	**338**	328	**15,566**	15,734	**2.17**	2.08
Grain and fertilizers	**1,161**	1,136	**42,728**	42,396	**2.72**	2.68
Intermodal	**969**	919	**26,257**	25,456	**3.69**	3.61
Automotive	**520**	559	**2,885**	3,165	**18.02**	17.66
Other items (1)	**195**	210	**–**	–	**–**	–
Total	**$5,652**	$5,446	**153,095**	149,557	**3.56**	3.50

(1) Principally non-freight revenues derived from third parties.

Petroleum and chemicals

Revenues for the year ended December 31, 2001 increased by $29 million, or 3%, over 2000, of which $22 million resulted from the inclusion of WC revenues. Excluding WC, growth in the year was driven by market share gains and plant expansions in the petroleum products sector, increased salt traffic, mainly in the early part of the year, and the weaker Canadian dollar. Significant weakness in sulfur demand partially offset these increases. The revenue per revenue ton mile increase of 2% for the year was mainly attributable to the effect of the weaker Canadian dollar.

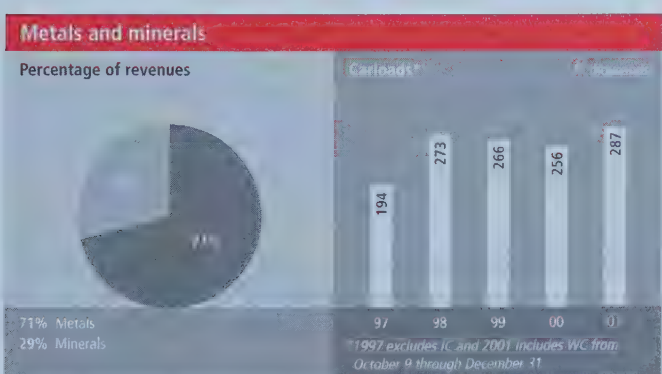


Forest products

Revenues for the year ended December 31, 2001 increased by $80 million, or 8%, over 2000 of which $55 million resulted from the inclusion of WC revenues. Excluding WC, growth was driven by market share gains in the panels segment and the effect of the weaker Canadian dollar. These gains were partially offset by weakness in the pulp and paper markets due, in part, to a significant reduction in U.S. paper consumption. The increase in revenue per revenue ton mile of 5% was mainly due to the effect of the weaker Canadian dollar and the inclusion of shorter haul WC traffic.

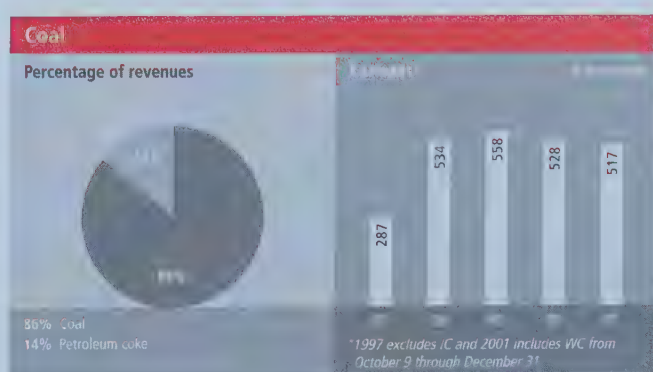
Metals and minerals

Revenues for the year ended December 31, 2001 increased by $66 million, or 17%, over 2000 of which $22 million resulted from the inclusion of WC revenues. Excluding WC, growth in the year was driven by strong Canadian aluminum exports to the United States in line with weaker U.S. production, increased levels of equipment traffic, market share gains in steel, ores and concentrates, and increased stone and rock shipments to the United States. Significant weakness in the steel markets partially offset overall growth. Revenue per revenue ton mile was essentially flat year over year.



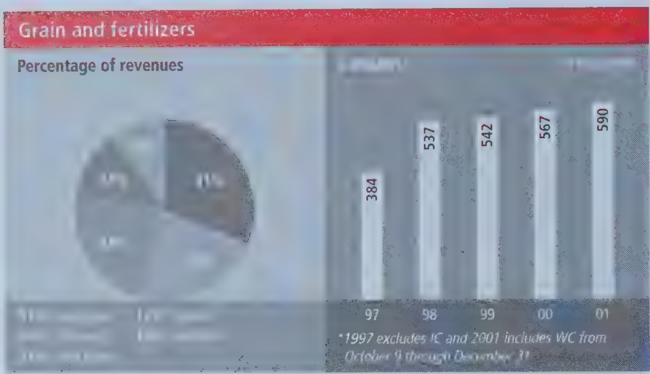
Coal

Revenues for the year ended December 31, 2001 increased by $10 million, or 3%, over 2000, of which $7 million resulted from the inclusion of WC revenues. Excluding WC, strong demand for thermal coal in the year was partially offset by reduced shipments of metallurgical coal due to the closure of some Canadian mines in 2000. The revenue per revenue ton mile increase of 4% was mainly due to an increase in rates tied to commodity prices and the effect of the weaker Canadian dollar.



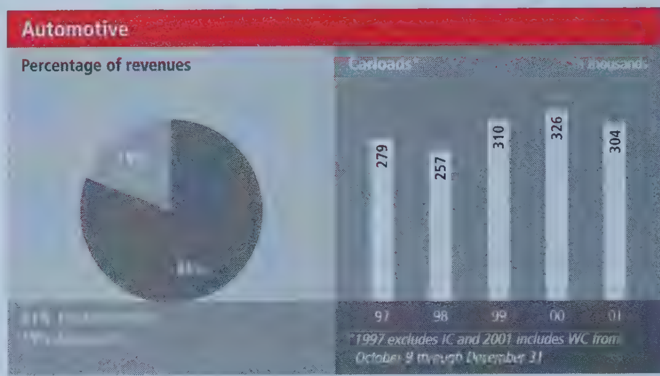
Grain and fertilizers

Revenues for the year ended December 31, 2001 increased by $25 million, or 2%, over 2000 of which $15 million resulted from the inclusion of WC revenues. Excluding WC, growth was mainly driven by higher wheat shipments to the United States, increased market share of U.S. corn and soybean traffic and higher exports of canola through Vancouver. The 1% increase in revenue per revenue ton mile was mainly due to a shift to shorter haul traffic and the effect of the weaker Canadian dollar, partially offset by the introduction of the Canadian grain revenue cap in August 2000.



Automotive

Revenues for the year ended December 31, 2001 decreased by $39 million, or 7%, from 2000. The revenue decline resulted from weakness in North American vehicle production in 2001 and from one-time gains obtained in 2000 due, in part, to competitors' service problems. The decline was partially offset by the effect of the weaker Canadian dollar. The increase in revenue per revenue ton mile of 2% was mainly due to the weaker Canadian dollar partially offset by an increase in the average length of haul.



Intermodal

Revenues for the year ended December 31, 2001 increased by $50 million, or 5%, over 2000 of which $7 million resulted from the inclusion of WC revenues. Excluding WC, growth was driven by market share gains in the international segment and from new service offerings in the domestic segment. Weaker economic conditions in the second half of the year led to slower growth. Revenue per revenue ton mile increased by 2% due to rate increases and the effect of the weaker Canadian dollar, partially offset by a shift to longer haul traffic.

Operating expenses

Operating expenses amounted to $4,286 million in 2001 compared to $4,061 million in 2000. The increase in 2001 was mainly due to the inclusion of $95 million of WC expenses, the special charge for workforce reductions, increased depreciation and amortization expense, higher fuel costs, and increased expenses for equipment rents and casualty and other. Partially offsetting these increases were lower expenses for purchased services. Operating expenses, excluding the special charge, amounted to $4,188 million, an increase of $127 million, or 3%, from 2000.

Dollars in millions *Year ended December 31,*	2001		2000	
	Amount	% of revenue	Amount	% of revenue
Labor and fringe benefits	$1,726	30.5%	$1,684	30.9%
Purchased services	546	9.7%	595	10.9%
Depreciation and amortization	463	8.2%	412	7.6%
Fuel	485	8.6%	450	8.3%
Equipment rents	314	5.5%	291	5.4%
Material	265	4.7%	263	4.8%
Operating taxes	158	2.8%	158	2.9%
Casualty and other	231	4.1%	208	3.8%
	4,188	74.1%	4,061	74.6%
Special charge	98		–	
Total	$4,286		$4,061	

Labor and fringe benefits: Labor and fringe benefit expenses in 2001 increased by $42 million, or 2%, as compared to 2000. The increase was mainly attributable to the inclusion of WC labor expense of $46 million, wage increases and the impact of the weaker Canadian dollar on U.S. denominated expenses. This was partially offset by lower pension and other benefit related expenses.

Purchased services: Costs of purchased services decreased by $49 million, or 8%, in 2001 as compared to 2000. The decrease was mainly due to one-time consulting and professional fees related to a proposed combination in 2000 and lower contracted services in 2001. This was partially offset by higher equipment repair expenses and $11 million resulting from the inclusion of WC purchased services expense.

Depreciation and amortization: Depreciation and amortization expense in 2001 increased by $51 million, or 12%, as compared to 2000. The increase was mainly due to net capital additions and the inclusion of WC depreciation of $10 million.

Fuel: Fuel expense in 2001 increased by $35 million, or 8%, as compared to 2000, primarily due to an increase in the average cost of fuel and the inclusion of $10 million of WC fuel expense.

Equipment rents: These expenses increased by $23 million, or 8%, in 2001 as compared to 2000. The increase was mainly attributable to lower lease and offline car hire income and the inclusion of $6 million of WC equipment rents. This was partially offset by lower private car mileage payments.

Material: Material costs increased by $2 million, or 1%, in 2001 as compared to 2000. The increase was mainly due to higher locomotive and car maintenance costs and the inclusion of $4 million of WC material costs which were mostly offset by higher recoveries in 2001 from work performed for third parties.

Operating taxes: Operating taxes remained unchanged as higher provincial capital taxes and the inclusion of $2 million of WC operating taxes were offset by provincial sales tax recoveries in 2001.

Casualty and other: These expenses increased by $23 million, or 11%, in 2001 as compared to 2000. The increase resulted from higher expenses for occupational related claims and environmental matters, and the inclusion of $6 million of WC casualty and other expense. This was partially offset by lower expenses for damaged equipment and merchandise claims.

Special charge: The Company recorded a charge of $98 million, $62 million after tax, in the second quarter of 2001 for the reduction of 690 positions (388 occurred in 2001 with the remainder planned to be completed by the end of 2002). The charge included severance and other payments to be made to affected employees.

Other

Interest expense: Interest expense increased by $17 million to $312 million for the year ended December 31, 2001 as compared to 2000. The increase was mainly due to the financing related to the acquisition of WC, the inclusion of $4 million of WC interest expense, and the impact of the weaker Canadian dollar on U.S. denominated interest costs. This was, in part, offset by the refinancing of a portion of matured debt at lower rates.

Other income: In 2001, the Company recorded other income of $65 million compared to $126 million in 2000. Included in 2001 is a charge of $99 million to write down the Company's net investment in 360networks Inc., a one-time gain of $101 million related to the sale of the Company's 50 percent interest in DRT and $11 million of WC other income. The comparative 2000 period included an $84 million gain related to the 360networks Inc. transaction.

Income tax expense: The Company recorded an income tax expense of $392 million for the year ended December 31, 2001 compared to $442 million in 2000. The effective tax rate for the year ended December 31, 2001 decreased to 35.0% from 36.3% in 2000 due mainly to lower tax rates in 2001.

2000 compared to 1999

The Company recorded consolidated net income of $774 million ($3.91 per basic share) for the year ended December 31, 2000 compared to $603 million ($3.03 per basic share) for the year ended December 31, 1999. Diluted earnings per share were $3.82 in 2000 compared to $2.98 in 1999.

In 2000, the Company recorded a gain of $84 million, $58 million after tax ($0.30 per basic share or $0.28 per diluted share), related to the exchange of its minority equity investments in certain joint venture companies for common shares in 360networks Inc. Excluding the effect of this item, consolidated net income was $716 million ($3.61 per basic share or $3.54 per diluted share) for the year ended December 31, 2000.

Operating income was $1,385 million for 2000 compared to $1,233 million in 1999. This represents an increase of $152 million, or 12%. The operating ratio in 2000 was 74.6% compared to 76.6% in 1999.

Revenues

Revenues for the year ended December 31, 2000 totaled $5,446 million compared to $5,261 million in 1999. The increase of $185 million, or 4%, was mainly attributable to gains in automotive, intermodal and grain and fertilizers. This was partially offset by lower coal revenues. Revenue ton miles increased by 4% as compared to 1999 while freight revenue per revenue ton mile remained flat.

Year ended December 31,	2000	1999	2000	1999	2000	1999
	Revenues		Revenue ton miles		Freight revenue per revenue ton mile	
	In millions				*In cents*	
Petroleum and chemicals	$ 894	$ 878	24,858	24,194	3.60	3.63
Metals and minerals	392	398	9,207	9,271	4.26	4.29
Forest products	1,008	995	28,741	27,500	3.51	3.62
Coal	328	402	15,734	18,645	2.08	2.16
Grain and fertilizers	1,136	1,066	42,396	38,681	2.68	2.76
Intermodal	919	810	25,456	22,589	3.61	3.59
Automotive	559	483	3,165	2,733	17.66	17.67
Other items	210	229	–	–	–	–
Total	$5,446	$5,261	149,557	143,613	3.50	3.50

Petroleum and chemicals

Revenues for the year ended December 31, 2000 increased by $16 million, or 2%, over 1999. Growth in 2000 was mainly due to increased demand for petroleum gas, industrial chemicals and petrochemicals. Growth was also driven by increased production from plant expansions in the petroleum products segments. Weak market demand for polyvinyl chloride (PVC plastics) and related chemicals and sulfur exports to the United States partially offset these gains. The revenue per revenue ton mile decrease of 1% for 2000 was mainly due to changes in some contract and rate structures.

Metals and minerals

Revenues for the year ended December 31, 2000 decreased by $6 million, or 2%, as compared to 1999. The decline in 2000 reflects lower finished steel shipments due, in particular, to fewer pipeline projects in western Canada and customer production shutdowns in 2000. This is partially offset by market share gains in, as well as strength from, both the overall steel markets in the first half of 2000 and concentrate markets during 2000. The revenue per revenue ton mile decrease of 1% for 2000 was mainly due to an increase in the average length of haul.

Forest products

Revenues for 2000 grew by $13 million over 1999, representing a 1% increase. Market share gains, as well as solid demand in the paper segment, drove growth in 2000. Declining lumber shipments due to weaker commodity prices and fewer housing starts in the United States compared to 1999 partially offset these gains. The revenue per revenue ton mile decrease of 3% for 2000 can be attributed to an increase in the average length of haul. Rate pressure as a result of consolidations in the forest products industry was also a contributing factor.

Coal

Revenues for the year ended December 31, 2000 decreased by $74 million, or 18%, from 1999. Continued weak market conditions for Canadian export coal resulted in lower shipments from, and closures of, certain CN-served coal mines. This was compounded by further rate reductions which were tied to coal prices. The revenue per revenue ton mile decrease of 4% for 2000 was mainly due to reduced freight rates tied to contracted coal prices.

Grain and fertilizers

Revenues for 2000 increased by $70 million, or 7%, over 1999. The increase in 2000 was mainly driven by strong Canadian wheat and barley exports, as well as U.S. and Canadian oil seed exports. Revenue per revenue ton mile decreased by 3% for 2000 mainly due to a decline in grain rates in Canada and a shift to longer haul traffic.

Intermodal

Revenues in 2000 increased by $109 million, or 13%, in comparison to the year ended December 31, 1999. Increased container trade through the ports of Vancouver and Halifax and market share gains drove the growth in the international segment. The domestic segment benefited from strength in the North American economy as well as market share gains through enhanced service offerings. The revenue per revenue ton mile increase of 1% for 2000 is mainly due to a shift to higher yielding traffic.

Automotive

Revenues for the year ended December 31, 2000 increased by $76 million, or 16%, over 1999. The increase in revenues for 2000 reflects strong North American vehicle sales during the first nine months of 2000 and one-time gains due, in part, to competitors' service problems. The revenue per revenue ton mile for 2000 remained relatively unchanged despite an increase in the average length of haul, due to growth of higher yielding traffic.

Other items

Revenues for the year ended December 31, 2000 decreased by $19 million over 1999. The majority of the 8% decrease was attributable to a non-recurring branch line subsidy payment from the Canadian Transportation Agency (CTA) received in 1999 relating to a claim for unprofitable lines. This was partially offset by increased revenues in 2000 for commuter services.

Operating expenses

Operating expenses amounted to $4,061 million in 2000 compared to $4,028 million in 1999. Operating expenses remained relatively flat with an increase of $33 million, or less than 1%, due predominantly to significantly higher fuel costs and depreciation, partially offset by reductions in all other expense categories.

Dollars in millions *Year ended December 31,*	2000		1999	
	Amount	% of revenue	Amount	% of revenue
Labor and fringe benefits	$1,684	30.9%	$1,711	32.5%
Purchased services	595	10.9%	591	11.2%
Depreciation and amortization	412	7.6%	400	7.6%
Fuel	450	8.3%	309	5.9%
Equipment rents	291	5.4%	335	6.4%
Material	263	4.8%	260	5.0%
Operating taxes	158	2.9%	173	3.3%
Casualty and other	208	3.8%	249	4.7%
Total	$4,061	74.6%	$4,028	76.6%

Labor and fringe benefits: Labor and fringe benefit expenses in 2000 decreased by $27 million, or 2%, as compared to 1999. The decrease was mainly attributable to the Company's reduced workforce and lower pension related expenses, partially offset by wage increases in 2000.

Purchased services: Costs of purchased services increased by $4 million, or 1%, in 2000 as compared to 1999. The increase was mainly due to higher consulting and professional fees related to a proposed combination in 2000. This was partially offset by a new directional running agreement and higher recoveries from joint facilities.

Depreciation and amortization: Depreciation and amortization expense in 2000 increased by $12 million, or 3%, as compared to 1999. The increase was due to the impact of net capital additions and the acquisition, at the end of 1999, of certain equipment formerly under operating leases.

Fuel: Fuel expense in 2000 increased by $141 million, or 46%, as compared to 1999. This was largely due to a 43% increase in the average fuel price (net of the Company's fuel hedging program) as well as an increase in traffic volumes. An improvement in fuel efficiency partially offset the higher fuel costs.

Equipment rents: These expenses decreased by $44 million, or 13%, in 2000 as compared to 1999. The decrease was mainly attributable to continuing improvements in asset utilization as a result of the Company's service plan and the acquisition of certain equipment formerly under operating leases. This was partially offset by higher volumes and more foreign cars on-line.

Material: Material costs in 2000 remained relatively unchanged from the 1999 level with only a 1% increase.

Operating taxes: Operating taxes decreased by $15 million, or 9%, in 2000, mainly as a result of lower municipal property taxes and a refund of prior years' sales tax. This was partially offset by higher diesel fuel taxes resulting from increased volumes.

Casualty and other: These expenses decreased by $41 million, or 16%, in 2000 as compared to 1999. Lower expenses for environmental matters, damaged equipment as well as various one-time recoveries largely drove the decrease. This was partially offset by higher casualty and legal costs and bad debt expense.

Other

Interest expense: Interest expense of $295 million for the year ended December 31, 2000 remained relatively unchanged from the 1999 level.

Other income: In 2000, the Company recorded other income of $126 million compared to $48 million in 1999. This increase was mainly due to the Company's gain on the exchange of its minority equity investments in certain joint venture companies for shares of 360networks Inc.

Income tax expense: The Company recorded an income tax expense of $442 million in 2000 compared to $370 million in 1999. The effective income tax rate was 36.3% for 2000 and 38.0% in 1999. The reduced effective tax rate in 2000 reflects lower overall income taxes applicable to CN and its subsidiaries' operations in certain jurisdictions.

Liquidity and capital resources

Operating activities: Cash provided from operations was $1,232 million for the year ended December 31, 2001 compared to $1,128 million for 2000. Net income, excluding non-cash items, generated cash of $1,599 million in 2001, up from $1,329 million in 2000. Cash from operations included an increase in net proceeds of $133 million from the Company's accounts receivable securitization program. Cash generated in 2001 and 2000 was partially consumed by payments with respect to workforce reductions of $169 million and $189 million, respectively, and income tax payments of $63 million and $101 million, respectively. The provision for workforce reductions amounted to $491 million as at December 31, 2001. Cash payments with respect to these workforce reduction accruals are expected to be approximately $151 million in 2002.

Investing activities: Cash used by investing activities in 2001 amounted to $1,764 million compared to $586 million in 2000. Investing activities included $1,278 million related to the acquisition of WC as at October 9, 2001 and proceeds of $112 million from the sale of DRT. Net capital expenditures amounted to $638 million for the year ended December 31, 2001, relatively unchanged from 2000. Net capital expenditures included expenditures for roadway renewal, rolling stock, and other capacity and productivity improvements.

The Company anticipates that capital expenditures for 2002 will remain at approximately the same level as 2001. This will include funds required for ongoing renewal of the basic plant and other acquisitions and investments required to improve the Company's operating efficiency and customer service.

As at December 31, 2001, the Company had commitments to acquire railroad ties at a cost of $28 million, rail at a cost of $20 million and freight cars at a cost of $4 million.

Dividends: During 2001, the Company paid dividends totaling $174 million to its shareholders at the rate of $0.195 per share per quarter on the common shares and 5.25% per year on the convertible preferred securities.

Financing activities: Cash provided from financing activities totaled $740 million for the year ended December 31, 2001 compared to cash used of $681 million in 2000. The increase was mainly due to the issuance of debt securities in two series, U.S.$400 million (Cdn$629 million) 6.375% Notes due 2011 and U.S.$200 million (Cdn$314 million) 7.375% Debentures due 2031. At December 31, 2001, the Company had U.S.$400 million remaining for issuance under its currently effective shelf registration statement. In 2001, the Company did not repurchase any common shares under the share repurchase program, whereas in 2000, $529 million was used to repurchase common shares as part of the share repurchase program. During 2001, the Company recorded $91 million in capital lease obligations ($149 million in 2000) for capital leases related to new equipment and the exercise of purchase options on existing equipment.

Acquisition of Wisconsin Central Transportation Corporation

On January 29, 2001, the Company, through an indirect wholly owned subsidiary, and WC entered into a merger agreement (the Merger) providing for the acquisition of all of the shares of WC by the Company for an acquisition cost of $1,297 million (U.S.$831 million). The Merger was approved by the shareholders of WC at a special meeting held on April 4, 2001. On September 7, 2001, the U.S. Surface Transportation Board (STB) rendered a decision, unanimously approving the Company's acquisition of WC. On October 9, 2001, the Company completed its acquisition of WC and began a phased integration of the companies' operations. The acquisition was financed by debt and cash on hand.

The Merger involves the integration of two previously independent businesses to provide shippers enhanced rail services over a coordinated network. There can be no assurance that the Company and WC will be able to coordinate their businesses without encountering operational difficulties or experiencing the loss of key CN or WC employees or customers, or that there will be realization of rail service and other efficiencies or synergies that are expected to be derived from the Merger.

The Company accounted for the Merger using the purchase method of accounting as required by the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1581 "Business Combinations." As such, the Company's consolidated financial statements include the assets, liabilities and results of operations of WC as of October 9, 2001, the date of acquisition. The impact of the results of the final valuation of WC's assets and liabilities and changes in accounting practices are not expected to have a material impact on the results of operations.

Share repurchase program

On January 23, 2001, the Board of Directors of the Company approved a share repurchase program which allowed for the repurchase of up to 10 million common shares between January 31, 2001 and January 30, 2002 pursuant to a normal course issuer bid, at prevailing market prices. At December 31, 2001, the Company had not repurchased any common shares under the share repurchase program.

Recent accounting pronouncements

In August 2001, the CICA issued Handbook Section 3062, "Goodwill and Other Intangible Assets." Effective for the Company's fiscal year beginning January 1, 2002, the section changes the accounting for goodwill from an amortization method to an impairment-only approach. In addition, this section requires acquired intangible assets to be separately recognized if the benefit of the intangible assets are obtained through contractual or other legal right, or if the intangible assets can be sold, transferred, licensed, rented or exchanged. The Company does not expect this section to have a material impact on its financial statements.

In December 2001, the CICA issued Accounting Guideline 13 "Hedging Relationships." Effective for the Company's fiscal year beginning January 1, 2003, for the purpose of applying hedge accounting, the guideline provides guidance on the identification, designation, documentation and effectiveness of hedging relationships. The guideline also addresses the discontinuance of hedge accounting. The Company does not expect this guideline, when adopted, to have a material impact on its financial statements.

In December 2001, the CICA issued Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments." Effective for the Company's fiscal year beginning January 1, 2002, the new section requires the use of a fair-value based approach of accounting for certain specified stock-based awards. For all other employee stock-based awards, the section encourages but does not require that a fair-value based approach be used. The section also addresses the accounting for stock appreciation rights and awards to be settled in cash, other financial assets and equity. The Company does not expect this section to have an initial material impact on its financial statements upon adoption.

Business risks

Certain information included in this report may be "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors which may cause the outlook, the actual results or performance of the Company or the rail industry to be materially different from any future results or performance implied by such statements. Such factors include the factors set forth below as well as other risks detailed from time to time in reports filed by the Company with securities regulators in Canada and the United States.

Competition

The Company faces significant competition from a variety of carriers, including Canadian Pacific Railway Company which operates the other major rail system in Canada, serving most of the same industrial and population centers as the Company, long distance trucking companies and, in certain markets, major U.S. railroads and other Canadian and U.S. railroads. Competition is generally based on the quality and reliability of services provided, price, and the condition and suitability of carriers' equipment. Competition is particularly intense in eastern Canada where an extensive highway network and population centers, located relatively close to one another, have encouraged significant competition from trucking companies. In addition, much of the freight carried by the Company consists of commodity goods that are available from other sources in competitive markets. Factors affecting the competitive position of suppliers of these commodities, including exchange rates, could materially adversely affect the demand for goods supplied by the sources served by the Company and, therefore, the Company's volumes, revenues and profit margins.

To a greater degree than other rail carriers, the Company's subsidiary, Illinois Central Railroad Company (ICRR), is vulnerable to barge competition because its main routes are parallel to the Mississippi River system. The use of barges for some commodities, particularly coal and grain, often represents a lower cost mode of transportation. Barge competition and barge rates are affected by navigational interruptions from ice, floods and droughts, which can cause widely fluctuating barge rates. The ability of ICRR to maintain its market share of the available freight has traditionally been affected by the navigational conditions on the river.

In recent years, there has been significant consolidation of rail systems in the United States. The resulting larger rail systems are able to offer seamless services in larger market areas and effectively compete with the Company in certain markets. There can be no assurance that the Company will be able to compete effectively against current and future competitors in the railroad industry and that further consolidation within the railroad industry will not adversely affect the Company's competitive position. No assurance can be given that competitive pressures will not lead to reduced revenues, profit margins or both.

Environment

The Company's operations are subject to federal, provincial, state, municipal and local regulations under environmental laws and regulations concerning, among other things, emissions into the air; discharges into waters; the generation, handling, storage, transportation, treatment and disposal of waste, hazardous substances and other materials; decommissioning of underground and aboveground storage tanks; and soil and groundwater contamination. A risk of environmental liability is inherent in the railroad and related transportation operations; real estate ownership, operation or control; and other commercial activities of the Company with respect to both current and past operations. As a result, the Company incurs significant compliance and capital costs, on an ongoing basis, associated with environmental regulatory compliance and clean-up requirements in its railway operations and relating to its past and present ownership, operation or control of real property.

While the Company believes that it has identified the costs likely to be incurred in the next several years, based on known information, for environmental matters, the Company's ongoing efforts to identify potential environmental concerns that may be associated with its properties may lead to future environmental investigations, which may result in the identification of additional environmental costs and liabilities.

In the operation of a railroad, it is possible that derailments, explosions or other accidents may occur that could cause harm to human health or to the environment. As a result, the Company may incur costs in the future, which may be material, to address any such harm, including costs relating to the performance of clean-ups, natural resource damages and compensatory or punitive damages relating to harm to individuals or property.

The ultimate cost of known contaminated sites cannot be definitely established, and the estimated environmental liability for any given site may vary depending on the nature and extent of the contamination, the available clean-up technique, the Company's share of the costs and evolving regulatory standards governing environmental liability. Also, additional contaminated sites yet unknown may be discovered or future operations may result in accidental releases. For these reasons, there can be no assurance that material liabilities or costs related to environmental matters will not be incurred in the future, or will not have a material adverse effect on the Company's financial position or results of operations in a particular quarter or fiscal year, or that the Company's liquidity will not be adversely impacted by such environmental liabilities or costs.

As at December 31, 2001, the Company had aggregate accruals for environmental costs of $112 million ($85 million at December 31, 2000). The Company has not included any reduction in costs for anticipated recovery from insurance.

Legal actions

In the normal course of its operations, the Company becomes involved in various legal actions, including claims relating to contractual obligations, personal injuries, damage to property and environmental matters. Work-related injuries to employees, including occupational related claims, are a significant expense for the railroad industry in the United States. Employees of the Company in the United States are therefore compensated according to the provisions of the Federal Employers' Liability Act (FELA) which provides for the finding of fault, unscheduled awards and reliance on the jury system. The Company maintains, and regularly updates, casualty provisions for such items, which it considers to be adequate. The final outcome with respect to actions outstanding or pending as at December 31, 2001 cannot be predicted with certainty, and therefore, there can be no assurance that their resolution and any future claims will not have a material adverse effect on the Company's financial position or results of operations in a particular quarter or fiscal year.

Labor negotiations

Labor agreements with all Canadian unions expired on December 31, 2000. By January 2002, the Company had achieved ratified settlements with four of the labor organizations representing about 9,000 of the Company's approximately 14,350 Canadian unionized employees: the Brotherhood of Maintenance of Way Employees, the Canadian National Railway Police Association, the International Brotherhood of Electrical Workers and the Canadian Auto Workers. These agreements are for a three-year period effective until December 31, 2003.

Agreements reached by the Company with the United Transportation Union (UTU) and the Brotherhood of Locomotive Engineers (BLE), which are part of the Canadian Council of Railway Operating Unions (CCROU) (approximately 4,900 employees), are subject to ratification. The Company and the Rail Canada Traffic Controllers (RCTC) (approximately 250 employees) are still in conciliation and negotiations continue. The unions representing the employees of Algoma Central Railway Inc. (approximately 140 employees) negotiate collectively under the auspices of a Council of Trade Unions (the Council). The Company is currently in conciliation with the Council and negotiations are ongoing. Although the Company currently believes it can achieve ratified agreements with the CCROU, RCTC and the Council, there can be no assurance that their resolution will not have a material adverse effect on the Company's financial position or results of operations.

The general approach to labor negotiations by U.S. Class 1 railroads is to bargain on a collective national basis. For several years now, Grand Trunk Western (GTW), Duluth, Winnipeg and Pacific (DWP), ICRR and CCP Holdings, Inc. (CCP) have bargained on a local basis rather than holding national, industry wide negotiations. Local negotiations result in settlements that better address both the employees' concerns and preferences and the railways' actual operating environment. There are risks associated with negotiating locally. Presidents and Congress have demonstrated that they will step in to avoid national strikes, while a local dispute may not generate federal intervention, making an extended work stoppage more likely. The Company's management believes the potential mutual benefits of local bargaining outweigh the risks.

As of December 2001, the Company had in place agreements with bargaining units representing approximately 55% of the unionized workforce at ICRR, 95% at GTW and DWP, 55% at CCP and 100% at WC. These agreements have various durations, ranging from 2002 to the end of 2004. Several of these agreements will reopen in 2002.

Negotiations are ongoing with the bargaining units with which the Company has not yet achieved new settlements. Until new agreements are reached, the terms and conditions of previous agreements continue to apply. Although the Company does not anticipate work action related to these negotiations while they are ongoing, there can be no assurance that their resolution will not have a material adverse effect on the Company's financial position or results of operations.

Regulation

The Company's rail operations in Canada are subject to regulation as to (i) rate setting and network rationalization by the Canadian Transportation Agency (the CTA), under the Canada Transportation Act (Canada) (the Act), and (ii) safety by the federal Minister of Transport under the Railway Safety Act (Canada) and certain other statutes. The Company's U.S. rail operations are subject to regulation by the STB (the successor to the Interstate Commerce Commission) and the Federal Railroad Administration. In addition, the Company is subject to a variety of health, safety, labor, environmental and other regulations, all of which can affect its competitive position and profitability.

The CTA Review Panel, which was appointed by the federal government to carry out a comprehensive review of the Canadian transportation legislation, including the Act, issued its report to the Minister of Transport at the end of June 2001. It was released to the public on July 18, 2001 and contains numerous recommendations for legislative changes which, if adopted, would affect all modes of transportation, including rail. No assurance can be given that any decision by the federal government pursuant to the report's recommendations will not materially adversely affect the Company's financial position or results of operations.

Financial instruments

Although the Company conducts its business and receives revenues primarily in Canadian dollars, a growing portion of its revenues, expenses, assets and debt are denominated in U.S. dollars. Thus, the Company's results are affected by fluctuations in the exchange rate between these currencies. Changes in the exchange rate between the Canadian dollar and other currencies (including the U.S. dollar) make the goods transported by the Company more or less competitive in the world marketplace and thereby affect the Company's revenues.

The Company has limited involvement with derivative financial instruments and does not use them for trading purposes. Collateral or other security to support financial instruments subject to credit risk is usually not obtained. However, the credit standing of counterparties is regularly monitored.

To mitigate the effects of fuel price changes on its operating margins and overall profitability, the Company has a systematic hedging program which calls for regularly entering into swap positions on crude and heating oil to cover a target percentage of future fuel consumption up to two years in advance.

The realized gains and losses from the Company's fuel hedging activities were a $6 million loss and a $49 million gain for the years ended December 31, 2001 and 2000, respectively. Hedging positions and credit standings of counterparties are monitored, and losses due to counterparty non-performance are not anticipated. At December 31, 2001, the Company hedged approximately 45% of the estimated 2002 fuel consumption and 25% of the estimated 2003 fuel consumption. This represented approximately 264 million U.S. gallons at an average price of U.S.$0.607 per U.S. gallon. Unrealized losses from the Company's fuel hedging activities were $38 million and $17 million as at December 31, 2001 and 2000, respectively.

Other risks

In any given year, the Company, like other railroads, is susceptible to changes in the economic conditions of the industries and geographic areas that produce and consume the freight it transports or the supplies it requires to operate. In addition, many of the goods and commodities carried by the Company experience cyclicality in the demand for them. However, many of the bulk commodities the Company transports move offshore and are impacted more by global economic conditions than North American economic cycles. The Company's results of operations can be expected to reflect this cyclicality because of the significant fixed costs inherent in railroad operations. The Company's revenues are affected by prevailing economic conditions. Should an economic slowdown or recession occur and continue in North America or other key markets, or should major industrial restructuring take place, the volume of rail shipments carried by the Company is likely to be materially affected.

In addition to the inherent risks of the business cycle, the Company is occasionally susceptible to severe weather conditions. For example, in the first quarter of 1998, a severe ice storm hit eastern Canada, which disrupted operations and service for the railroad as well as for CN customers.

Generally accepted accounting principles require the use of historical cost as the basis of reporting in financial statements. As a result, the cumulative effect of inflation, which has significantly increased asset replacement costs for capital-intensive companies such as CN, is not reflected in operating expenses. Depreciation charges on an inflation-adjusted basis, assuming that all operating assets are replaced at current price levels, would be substantially greater than historically reported amounts.

Management Report

The accompanying consolidated financial statements of Canadian National Railway Company and all information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in conformity with generally accepted accounting principles in Canada. These statements include some amounts that are based on best estimates and judgments. Financial information used elsewhere in the annual report is consistent with that in the financial statements.

Management of the Company, in furtherance of the integrity and objectivity of data in the financial statements, has developed and maintains a system of internal accounting controls and supports an extensive program of internal audits. Management believes that this system of internal accounting controls provides reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements, and that assets are properly accounted for and safeguarded.

The Board of Directors carries out its responsibility for the financial statements in this report principally through its Audit and Finance Committee, consisting solely of outside directors. The Audit and Finance Committee reviews the Company's consolidated financial statements and annual report and recommends their approval by the Board of Directors. Also, the Audit and Finance Committee meets regularly with the Chief, Internal Audit, and with the shareholders' auditors.

These consolidated financial statements have been audited by KPMG LLP, who have been appointed as the sole auditors of the Company by the shareholders.

Claude Mongeau
Executive Vice-President and Chief Financial Officer

January 22, 2002

Serge Pharand
Vice-President and Corporate Comptroller

January 22, 2002

Auditors' Report

To the shareholders of Canadian National Railway Company

We have audited the consolidated balance sheets of Canadian National Railway Company as at December 31, 2001 and 2000 and the consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian and United States of America generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2001, in accordance with Canadian generally accepted accounting principles.

On January 22, 2002, we reported separately to the Board of Directors of the Company on consolidated financial statements for the same period, prepared in accordance with United States generally accepted accounting principles.

KPMG LLP

KPMG LLP
Chartered Accountants

Montreal, Canada
January 22, 2002

Consolidated Statement of Income

In millions, except per share data *Year ended December 31,*	**2001**	2000	1999
Revenues			
Petroleum and chemicals	**$ 923**	$ 894	$ 878
Metals and minerals	**458**	392	398
Forest products	**1,088**	1,008	995
Coal	**338**	328	402
Grain and fertilizers	**1,161**	1,136	1,066
Intermodal	**969**	919	810
Automotive	**520**	559	483
Other items	**195**	210	229
Total revenues	**5,652**	5,446	5,261
Operating expenses			
Labor and fringe benefits	**1,726**	1,684	1,711
Purchased services	**546**	595	591
Depreciation and amortization	**463**	412	400
Fuel	**485**	450	309
Equipment rents	**314**	291	335
Material	**265**	263	260
Operating taxes	**158**	158	173
Casualty and other	**231**	208	249
Special charge *(Note 14)*	**98**	–	–
Total operating expenses	**4,286**	4,061	4,028
Operating income	**1,366**	1,385	1,233
Interest expense *(Note 15)*	**(312)**	(295)	(308)
Other income *(Note 16)*	**65**	126	48
Income before income taxes	**1,119**	1,216	973
Income tax expense *(Note 17)*	**(392)**	(442)	(370)
Net income	**$ 727**	$ 774	$ 603
Basic earnings per share (Note 19)	**$ 3.72**	$ 3.91	$ 3.03
Diluted earnings per share (Note 19)	**$ 3.62**	$ 3.82	$ 2.98

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

In millions December 31,	2001	2000
Assets		
Current assets:		
Cash and cash equivalents	$ 53	$ 19
Accounts receivable *(Note 4)*	645	737
Material and supplies	133	110
Deferred income taxes *(Note 17)*	153	116
Other	180	143
	1,164	1,125
Properties *(Note 5)*	16,723	13,583
Other assets and deferred charges *(Note 6)*	901	411
Total assets	$18,788	$15,119
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable and accrued charges *(Note 8)*	$ 1,374	$ 1,393
Current portion of long-term debt *(Note 10)*	163	434
Other	101	88
	1,638	1,915
Deferred income taxes *(Note 17)*	3,729	2,486
Other liabilities and deferred credits *(Note 9)*	1,296	1,193
Long-term debt *(Note 10)*	5,764	3,886
Shareholders' equity:		
Common shares *(Note 11)*	3,209	3,124
Convertible preferred securities *(Note 11)*	327	327
Contributed surplus	178	178
Currency translation	133	61
Retained earnings	2,514	1,949
	6,361	5,639
Total liabilities and shareholders' equity	$18,788	$15,119

On behalf of the Board:

David G.A. McLean
Director

Paul M. Tellier
Director

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity

In millions	Issued and outstanding common shares	Issued and outstanding convertible preferred securities	Common shares	Convertible preferred securities	Contributed surplus	Currency translation	Retained earnings	Total shareholders' equity
Balances December 31, 1998	191.8	–	$ 2,873	$ –	$ 190	$ 7	$ 1,221	$ 4,291
Cumulative effect of changes in accounting policy *(Note 2)*	–	–	–	–	–	–	(71)	(71)
Net income	–	–	–	–	–	–	603	603
Shares issued *(Note 11)*	9.2	4.6	404	327	–	–	–	731
Stock options exercised *(Note 11, 12)*	1.4	–	34	–	–	–	–	34
Currency translation	–	–	–	–	–	(16)	–	(16)
Dividends ($0.60 per share)	–	–	–	–	–	–	(118)	(118)
Dividends on convertible preferred securities	–	–	–	–	–	–	(9)	(9)
Balances December 31, 1999	202.4	4.6	3,311	327	190	(9)	1,626	5,445
Net income	–	–	–	–	–	–	774	774
Stock options exercised *(Note 11, 12)*	1.2	–	26	–	–	–	–	26
Share repurchase program *(Note 11)*	(13.0)	–	(213)	–	(12)	–	(304)	(529)
Currency translation	–	–	–	–	–	70	–	70
Dividends ($0.70 per share)	–	–	–	–	–	–	(136)	(136)
Dividends on convertible preferred securities	–	–	–	–	–	–	(11)	(11)
Balances December 31, 2000	190.6	4.6	3,124	327	178	61	1,949	5,639
Net income	–	–	–	–	–	–	727	727
Stock options exercised *(Note 11, 12)*	2.1	–	85	–	–	–	–	85
Currency translation	–	–	–	–	–	72	–	72
Dividends ($0.78 per share)	–	–	–	–	–	–	(150)	(150)
Dividends on convertible preferred securities	–	–	–	–	–	–	(12)	(12)
Balances December 31, 2001	**192.7**	**4.6**	**$3,209**	**$327**	**$178**	**$133**	**$2,514**	**$6,361**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

In millions *Year ended December 31,*	2001	2000	1999
Operating activities			
Net income	$ 727	$ 774	$ 603
Non-cash items in income:			
Depreciation and amortization *(Note 18)*	469	421	407
Deferred income taxes *(Note 17)*	307	218	325
Gain on sale of investments *(Note 16)*	(101)	(84)	–
Write-down of investment *(Note 6, 16)*	99	–	–
Special charge *(Note 14)*	98	–	–
Other	–	–	(2)
Changes in:			
Accounts receivable *(Note 4)*	197	71	(156)
Material and supplies	11	7	38
Accounts payable and accrued charges *(Note 8)*	(209)	21	64
Other net current assets and liabilities	(26)	(39)	(27)
Payments for workforce reductions *(Note 9)*	(169)	(189)	(219)
Other	(171)	(72)	(71)
Cash provided from operating activities	1,232	1,128	962
Investing activities			
Net additions to properties *(Note 18)*	(638)	(639)	(646)
Proceeds from disposal of properties	40	63	87
Acquisition of Wisconsin Central Transportation Corporation *(Note 3)*	(1,278)	–	–
Other	112	(10)	2
Cash used by investing activities	(1,764)	(586)	(557)
Dividends paid	(174)	(149)	(127)
Financing activities			
Issuance of long-term debt	4,015	860	456
Issuance of convertible preferred securities *(Note 11)*	–	–	327
Reduction of long-term debt	(3,336)	(1,038)	(1,509)
Issuance of common shares *(Note 11)*	61	26	438
Repurchase of common shares *(Note 11)*	–	(529)	–
Cash provided from (used by) financing activities	740	(681)	(288)
Net increase (decrease) in cash and cash equivalents	34	(288)	(10)
Cash and cash equivalents, beginning of year	19	307	317
Cash and cash equivalents, end of year	$ 53	$ 19	$ 307

See accompanying notes to consolidated financial statements.

Canadian National Railway Company (CN or the Company), directly and through its subsidiaries, is engaged in the rail transportation business. CN spans Canada and mid-America, from the Atlantic and Pacific oceans to the Gulf of Mexico, serving the ports of Vancouver, Prince Rupert, B.C., Montreal, Halifax, New Orleans and Mobile, Alabama, and the key cities of Toronto, Buffalo, Chicago, Detroit, Duluth, Minnesota/Superior, Wisconsin, Green Bay, Wisconsin, Minneapolis/St. Paul, Memphis, St. Louis and Jackson, Mississippi, with connections to all points in North America. CN's revenues are derived from the movement of a diversified and balanced portfolio of goods, including petroleum and chemicals, grain and fertilizers, coal, metals and minerals, forest products, intermodal and automotive.

1 Summary of significant accounting policies

These consolidated financial statements are expressed in Canadian dollars, except where otherwise indicated, and have been prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP). Significant differences between the accounting principles applied in the accompanying financial statements and those under United States generally accepted accounting principles (U.S. GAAP) are quantified and explained in Note 22 to the financial statements. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the period, the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements. On an ongoing basis, management reviews its estimates, including those related to litigation, environmental liabilities, casualty claims, depreciation lives, income tax liabilities, pensions and post-retirement obligations, based upon currently available information. Actual results could differ from these estimates.

A. Principles of consolidation
These consolidated financial statements include the accounts of all subsidiaries, including Wisconsin Central Transportation Corporation (WC) for which the Company acquired control and consolidated effective October 9, 2001. The Company's investments in which it has significant influence are accounted for using the equity method of accounting.

B. Revenues
Freight revenues are recognized on services performed by the Company, based on the percentage of completed service method. Costs associated with movements are recognized as the service is performed.

C. Foreign exchange
All of the Company's United States (U.S.) operations are classified as self-sustaining foreign entities with the U.S. dollar as their functional currency. The Company also has equity investments in international affiliates (United Kingdom, New Zealand and Australia) with their respective local currencies as their functional currencies. Accordingly, the U.S. operations' assets and liabilities and the Company's foreign equity investments are translated into Canadian dollars at the rate in effect at the balance sheet date and the revenues and expenses are translated at average exchange rates during the year. All adjustments resulting from the translation of the foreign operations are recorded in Currency translation, which forms part of Shareholders' equity.

The Company has designated all U.S. dollar denominated long-term debt of the parent company as a foreign exchange hedge of its net investment in U.S. subsidiaries. Unrealized foreign exchange gains and losses, from the date of designation, on the translation of the U.S. dollar denominated debt are also included in Currency translation.

D. Cash and cash equivalents
Cash and cash equivalents include highly liquid investments purchased three months or less from maturity and are stated at cost, which approximates market value.

E. Accounts receivable
Accounts receivable are recorded at cost net of the provision for doubtful accounts. Any gains or losses on the sale of accounts receivable are calculated by comparing the carrying amount of the accounts receivable sold to the total of the cash proceeds on sale and the fair value of the retained interest in such receivables on the date of transfer. Fair values are determined on a discounted cash flow basis. Costs related to the sale of accounts receivable are recognized in earnings in the period incurred.

F. Material and supplies
The inventory is valued at weighted-average cost for ties, rails, fuel and new materials in stores, and at estimated utility or sales value for usable secondhand, obsolete and scrap materials.

G. Properties
Railroad properties are carried at cost less accumulated depreciation including asset impairment write-downs. All costs of materials associated with the installation of rail, ties, ballast and other track improvements are capitalized to the extent they meet the Company's definition of "unit of property." The related labor and overhead costs are also capitalized for the installation of new, non-replacement track. All other labor and overhead costs and maintenance costs are expensed as incurred. Related interest costs are charged to expense. Included in property additions are the costs of developing computer software for internal use.

1 Summary of significant accounting policies *(continued)*

The cost of railroad properties, less net salvage value, retired or disposed of in the normal course of business is charged to accumulated depreciation, in accordance with the group method of depreciation. The Company reviews the carrying amounts of properties whenever events or changes in circumstances indicate that such carrying amounts may not be recoverable based on future undiscounted cash flows or estimated net realizable value. Assets that are deemed impaired as a result of such review are recorded at the lower of carrying amount or net recoverable amount.

H. Depreciation

The cost of properties, net of asset impairment write-downs, is depreciated on a straight-line basis over their estimated useful lives as follows:

Asset class	Annual rate
Track and roadway	2%
Rolling stock	3%
Buildings and other	4%

The Company follows the group method of depreciation and as such conducts comprehensive depreciation studies generally every three years to assess the reasonableness of the lives of properties based upon current information, including actual results of prior years. Such a study was conducted in 2001 for the Company's Canadian properties. The study did not have a significant effect on depreciation expense as the benefit of increased asset lives was offset by deficiencies in certain accumulated depreciation balances.

I. Pensions

Pension costs are determined using actuarial methods. Pension expense is charged to operations and includes:

(i) the cost of pension benefits provided in exchange for employees' services rendered during the year,

(ii) the amortization of the initial net transition obligation on a straight-line basis over the expected average remaining service life of the employee group covered by the plans,

(iii) the amortization of past service costs and amendments over the expected average remaining service life of the employee group covered by the plans, and

(iv) the interest cost of pension obligations, the return on pension fund assets, and the amortization of cumulative unrecognized net actuarial gains and losses in excess of 10% of the greater of the projected benefit obligation or market-related value of plan assets over the expected average remaining service life of the employee group covered by the plans.

The pension plans are funded through contributions determined in accordance with the projected unit credit actuarial cost method.

J. Post-retirement benefits other than pensions

The Company accrues the cost of post-retirement benefits other than pensions. These benefits, which are funded by the Company as they become due, include life insurance programs, medical benefits, supplemental pension allowances and free rail travel benefits.

The Company amortizes the cumulative unrecognized net actuarial gains and losses in excess of 10% of the projected benefit obligation over the expected average remaining service life of the employee group covered by the plans.

K. Derivative financial instruments

The Company may use derivative financial instruments from time to time, in the management of its fuel, interest rate and foreign currency exposures. Gains or losses on such instruments entered into for the purpose of hedging financial risk exposures are deferred and amortized in the results of operations over the life of the hedged asset or liability or over the term of the derivative financial instrument. Income and expense related to hedged derivative financial instruments are recorded in the same category as that generated by the underlying asset or liability.

L. Environmental expenditures

Environmental expenditures that relate to current operations are expensed unless they relate to an improvement to the property. Expenditures that relate to an existing condition caused by past operations and which are not expected to contribute to current or future operations are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are likely, and when the costs, based on a specific plan of action in terms of the technology to be used and the extent of the corrective action required, can be reasonably estimated.

M. Income taxes

The Company follows the asset and liability method for accounting for income taxes. Under the asset and liability method, the change in the net deferred tax asset or liability is included in income. Deferred tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled.

N. Recent accounting pronouncements

In August 2001, the Canadian Institute of Chartered Accountants (CICA) issued Handbook Section 3062, "Goodwill and Other Intangible Assets." Effective for the Company's fiscal year beginning January 1, 2002, the section changes the accounting for goodwill from an amortization method to an impairment-only approach. In addition, this section requires acquired intangible assets to be separately recognized if the benefit of the intangible assets are obtained through contractual or other legal right, or if the intangible assets can be sold, transferred, licensed, rented or exchanged. The Company does not expect this section to have a material impact on its financial statements.

In December 2001, the CICA issued Accounting Guideline 13 "Hedging Relationships." Effective for the Company's fiscal year beginning January 1, 2003, for the purpose of applying hedge accounting, the guideline provides guidance on the identification, designation, documentation and effectiveness of hedging relationships. The guideline also addresses the discontinuance of hedge accounting. The Company does not expect this guideline, when adopted, to have a material impact on its financial statements.

In December 2001, the CICA issued Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments." Effective for the Company's fiscal year beginning January 1, 2002, the new section requires the use of a fair-value based approach of accounting for certain specified stock-based awards. For all other employee stock-based awards, the section encourages but does not require that a fair-value based approach be used. The section also addresses the accounting for stock appreciation rights and awards to be settled in cash, other financial assets and equity. The Company does not expect this section to have an initial material impact on its financial statements upon adoption.

2 Accounting changes

The Company has made certain changes in accounting policies to conform to new accounting standards.

2001

In 2001, the Company early adopted the CICA amended recommendations of Section 1650 "Foreign Currency Translation." The amended section eliminates the deferral and amortization of unrealized translation gains or losses on foreign currency denominated monetary items that have a fixed or ascertainable life extending beyond the end of a fiscal year. Translation gains or losses on the above items will now be recognized in net income for the current period. As required by the amended section, the Company has retroactively restated all prior period financial statements presented. The cumulative effect of the adoption of the amended section of $93 million ($62 million after tax) has been reflected as a charge to opening retained earnings of 1999. The effect on net income for 2001, 2000 and 1999 was an increase of $1 million, $2 million, and $1 million, respectively.

2000

In 2000, the Company early adopted the CICA recommendations related to the presentation of earnings per share. The standard essentially harmonizes Canadian and U.S. standards, specifically in the areas of presenting earnings per share information, computing diluted earnings per share and disclosure requirements. The new standard requires restatement of prior year comparative information.

1999

In 1999, the Company adopted the CICA recommendations related to the accounting for employee future benefits. Specifically, the standard outlines guidance for the accounting for pension, post-retirement and workers' compensation costs. In accordance with the transitional provisions of the new standard, the Company has applied the recommendations retroactively but has not restated comparative periods. The cumulative effect of the adoption of the new standard of $17 million ($9 million after tax) has been reflected as a charge to opening retained earnings.

3 Acquisition of Wisconsin Central Transportation Corporation

On January 29, 2001, the Company, through an indirect wholly owned subsidiary, and WC entered into a merger agreement (the Merger) providing for the acquisition of all of the shares of WC by the Company for an acquisition cost of $1,297 million (U.S.$831 million). The Merger was approved by the shareholders of WC at a special meeting held on April 4, 2001. On September 7, 2001, the U.S. Surface Transportation Board (STB) rendered a decision, unanimously approving the Company's acquisition of WC. On October 9, 2001, the Company completed its acquisition of WC and began a phased integration of the companies' operations. The acquisition was financed by debt and cash on hand.

The Company accounted for the Merger using the purchase method of accounting as required by CICA Handbook Section 1581 "Business Combinations." As such, the Company's consolidated financial statements include the assets, liabilities and results of operations of WC as of October 9, 2001, the date of acquisition. The following table outlines the

3 Acquisition of Wisconsin Central Transportation Corporation *(continued)*

estimated fair values of WC's assets and liabilities acquired at acquisition. The impact of the results of the final valuation of WC's assets and liabilities and changes in accounting practices are not expected to have a material impact on the results of operations.

In millions	October 9, 2001
Current assets	$ 175
Properties	2,435
Other assets and deferred charges	433
Total assets acquired	3,043
Current liabilities	353
Deferred income taxes	743
Other liabilities and deferred credits	178
Long-term debt	472
Total liabilities assumed	1,746
Net assets acquired	$1,297

The Consolidated Statement of Income for the year ended December 31, 2001 included $129 million of revenues, $34 million of operating income and $11 million of other income from WC. The acquisition of WC contributed $11 million ($0.06 per basic share or $0.05 per diluted share) to the Company's net income.

If the Company had acquired WC on January 1, 2000, based on the historical amounts reported by WC, net of the amortization of the difference between the Company's cost to acquire WC and the net assets of WC (based on preliminary estimates of the fair values of WC's properties and equipment, and estimates of their remaining useful lives, as well as estimates of the fair values of other WC assets and liabilities), revenues, net income, basic and diluted earnings per share would have been $6,090 million, $763 million, $3.91 per basic share and $3.80 per diluted share, respectively for the year ended December 31, 2001 and $5,979 million, $784 million, $3.96 per basic share and $3.87 per diluted share, respectively for 2000. The pro forma figures do not reflect synergies, and accordingly, do not account for any potential increases in operating income, any estimated cost savings or facilities consolidation.

4 Accounts receivable

In millions December 31,	**2001**	2000
Freight		
Trade	**$309**	$470
Accrued	**119**	81
Non-freight	**298**	249
	726	800
Provision for doubtful accounts	**(81)**	(63)
	$645	$737

The Company has a five-year revolving agreement, expiring in 2003, to sell eligible freight trade receivables up to a maximum of $350 million of receivables outstanding at any point in time. At December 31, 2001, pursuant to the agreement, $168 million and U.S.$113 million (Cdn$179 million) had been sold on a limited recourse basis compared to $147 million and U.S.$40 million (Cdn$61 million) at December 31, 2000. The Company has retained the responsibility for servicing, administering and collecting freight trade receivables sold. Other income included $10 million in each of 2001 and 2000 for costs related to the agreement, which fluctuate with changes in prevailing interest rates.

No servicing asset or liability has been recorded because the costs of servicing are compensated by the benefits of the agreement.

5 Properties

In millions	*December 31, 2001*			*December 31, 2000*		
	Cost	**Accumulated depreciation**	**Net**	Cost	Accumulated depreciation	Net
Track, roadway and land	**$16,549**	**$3,510**	**$13,039**	$13,446	$3,189	$10,257
Rolling stock	**3,703**	**1,336**	**2,367**	3,398	1,205	2,193
Buildings and other	**2,541**	**1,224**	**1,317**	2,239	1,106	1,133
	$22,793	**$6,070**	**$16,723**	$19,083	$5,500	$13,583
Capital leases included in properties	**$ 1,246**	**$ 218**	**$ 1,028**	$ 1,152	$ 163	$ 989

6 Other assets and deferred charges

In millions December 31,	2001	2000
Investments *(A)*	$496	$124
Prepaid benefit cost *(Note 13)*	251	166
Deferred receivables	108	73
Unamortized debt issue costs	42	37
Other	4	11
	$901	$411

A. Investments

Investment in English Welsh and Scottish Railway (EWS)

Through its acquisition of WC, the Company acquired 40.9% of EWS, a company which provides most of the rail freight services in Great Britain, operates freight trains through the English Channel tunnel and carries mail for the Royal Mail. The Company accounts for its investment in EWS using the equity method of accounting. The fair value of the investment in EWS was preliminarily determined based on a multiple of EWS earnings. At December 31, 2001, based upon this preliminary valuation, the carrying value of the investment was in excess of the Company's share of EWS' net assets.

Investment in Tranz Rail Holdings Limited (Tranz Rail) and Australian Transport Network Limited (ATN)

Through its acquisition of WC, the Company acquired 23.7% of Tranz Rail, a publicly traded company which operates a 2,400-route mile freight and passenger rail business in New Zealand and 33% of ATN, a company which provides substantially all commercial rail freight service in Tasmania operating a 555-route mile rail system. Tranz Rail owns another 27% of ATN. The Company accounts for both investments as "available for sale" because its intent is to sell the investments within one year. The fair value of the investment in Tranz Rail was preliminarily determined based on its market capitalization and that of ATN, based on a multiple of ATN earnings. The Company's equity in net income and interest expense related to Tranz Rail and ATN for the period between October 9 and December 31, 2001, allocated to the purchase price of the investments was not significant.

Investment in 360networks Inc.

In June 2001, the Company recorded a charge of $99 million, $77 million after tax, to write down 100% of its net investment in 360networks Inc. Subsequently, the Company sold all of the shares of its investee. In 2000, the Company had recorded a gain of $84 million, $58 million after tax, related to the exchange of its minority equity investments in certain joint venture companies for 11.4 million shares of 360networks Inc.

7 Credit facilities

The Company has U.S.$1,000 million five-year revolving credit facilities which expire in March 2003. The credit facilities provide for interest on borrowings at various interest rates including the Canadian prime rate, bankers' acceptance rates, the U.S. federal funds effective rate and the London Interbank Offer Rate plus applicable margins. The credit facility agreements contain customary financial covenants, based on U.S. GAAP, including i) limitations on debt as a percentage of total capitalization, ii) maintenance of tangible net worth above predefined levels, and iii) maintenance of the fixed charge coverage ratio above predefined levels. The Company was in compliance with all of these financial covenants throughout the year. The Company's commercial paper program is backed by a portion of its revolving credit facility. As at December 31, 2001, the Company had outstanding commercial paper of U.S.$213 million (Cdn$339 million) ($77 million as at December 31, 2000) and borrowings of U.S.$172 million (Cdn$273 million) under its revolving credit facilities. During 2000, the Company did not draw on the credit facilities. Interest rates on the borrowings under the revolving credit facilities at December 31, 2001 range from 2.15% to 2.73%.

8 Accounts payable and accrued charges

In millions *December 31,*	2001	2000
Trade payables	$ 385	$ 407
Payroll-related accruals	218	194
Current portion of workforce reduction provisions	151	137
Accrued interest on long-term debt	141	126
Income and other taxes	236	244
Accrued charges	131	187
Accrued operating leases	19	31
Other	93	67
	$1,374	$1,393

9 Other liabilities and deferred credits

In millions *December 31,*	2001	2000
Personal injury and other claims	$ 379	$ 373
Workforce reduction provisions, net of current portion *(A)*	340	376
Accrual for post-retirement benefits other than pensions *(B)*	258	231
Environmental reserve, net of current portion	73	64
Deferred credits and other	246	149
	$1,296	$1,193

A. Workforce reduction provisions

The workforce reduction provisions, which cover employees in both Canada and the United States, are mainly comprised of severance payments, the majority of which will be disbursed within the next five years. Other elements of the provisions mainly include early retirement incentives and bridging to early retirement. Payments for severance and other elements of the provisions have reduced the provisions by $169 million for the year ended December 31, 2001 ($189 million for the year ended December 31, 2000). The aggregate provisions amount to $491 million at December 31, 2001.

B. Post-retirement benefits other than pensions

(i) Change in benefit obligation

In millions *Year ended December 31,*	2001	2000
Benefit obligation at beginning of year	$242	$230
Amendments	25	–
Actuarial loss	20	3
Interest cost	19	15
Service cost	11	8
Foreign currency changes	6	3
Transfer from other plans	5	–
Benefits paid	(19)	(17)
Benefit obligation at end of year	$309	$242

(ii) Funded status

In millions *December 31,*	2001	2000
Unfunded benefit obligation at end of year	$309	$242
Unrecognized net actuarial loss	(26)	(8)
Unrecognized prior service cost	(25)	(3)
Accrued benefit cost for post-retirement benefits other than pensions	$258	$231

(iii) Components of net periodic benefit cost

In millions *Year ended December 31,*	2001	2000	1999
Interest cost	$19	$15	$15
Service cost	11	8	8
Amortization of prior service cost	3	1	1
Recognized net actuarial loss	2	1	2
Net periodic benefit cost	$35	$25	$26

(iv) Weighted-average assumptions

December 31,	2001	2000	1999
Discount rate	6.97%	6.95%	7.39%
Rate of compensation increase	4.00%	4.25%	4.25%

For measurement purposes, increases in the per capita cost of covered health care benefits were assumed to be 8% for 2002 and 6% for 2001. It is assumed the rate will decrease gradually to an ultimate rate of 6% for 2004 and remain at that level thereafter.

A one-percentage-point change in the health care trend rate would not cause a material change in the Company's net periodic benefit cost nor the post-retirement benefit obligation.

10 Long-term debt

In millions	Maturity	Currency in which payable	*December 31,* 2001	2000
Bonds, debentures and notes: (A)				
Canadian National series:				
8 7/8% 15-year notes	May 21, 2001	Cdn$	$ –	$ 150
6 5/8% 10-year notes	May 15, 2003	U.S.$	**239**	225
7% 10-year notes	Mar. 15, 2004	U.S.$	**422**	398
6.45% Puttable Reset Securities (PURS) *(B)*	July 15, 2006	U.S.$	**398**	375
6 3/8% 10-year notes *(C)*	Oct. 15, 2011	U.S.$	**636**	–
6.80% 20-year notes *(C)*	July 15, 2018	U.S.$	**318**	300
7 5/8% 30-year debentures	May 15, 2023	U.S.$	**239**	225
6.90% 30-year notes *(C)*	July 15, 2028	U.S.$	**755**	712
7 3/8% 30-year debentures *(C)*	Oct. 15, 2031	U.S.$	**318**	–
Illinois Central series:				
7.12% 5-year notes	Aug. 2, 2001	U.S.$	**–**	75
6.72% 5-year notes	Aug. 14, 2001	U.S.$	**–**	75
6 3/4% 10-year notes	May 15, 2003	U.S.$	**159**	150
7 3/4% 10-year notes	May 1, 2005	U.S.$	**159**	150
6.98% 12-year notes	July 12, 2007	U.S.$	**80**	75
6.63% 10-year notes	June 9, 2008	U.S.$	**32**	30
5% 99-year income debentures	Dec. 1, 2056	U.S.$	**12**	12
7.7% 100-year debentures	Sep. 15, 2096	U.S.$	**199**	187
Wisconsin Central series:				
6 5/8% 10-year notes	April 15, 2008	U.S.$	**239**	–
Total bonds, debentures and notes			**4,205**	3,139
Other:				
Revolving credit facilities *(Note 7)*		U.S.$	**273**	–
Commercial paper *(D) (Note 7)*		Various	**339**	77
Capital lease obligations, amounts owing under equipment agreements and other *(E)*		Various	**1,125**	1,117
Total other			**1,737**	1,194
Subtotal			**5,942**	4,333
Less:				
Current portion of long-term debt			**163**	434
Net unamortized discount			**15**	13
			178	447
			$5,764	$3,886

A. The Company's bonds, debentures and notes are unsecured.

B. The PURS contain imbedded simultaneous put and call options at par. At the time of issuance, the Company sold the option to call the securities on July 15, 2006 (the reset date). If the call option is exercised, the imbedded put option is automatically triggered, resulting in the redemption of the original PURS. The call option holder will then have the right to remarket the securities at a new coupon rate for an additional 30-year term ending July 15, 2036. The new coupon rate will be determined according to a pre-set mechanism based on market conditions then prevailing. If the call option is not exercised, the put option is deemed to have been exercised, resulting in the redemption of the PURS on July 15, 2006.

C. These debt securities are redeemable, in whole or in part, at the option of the Company, at any time, at the greater of par and a formula price based on interest rates prevailing at the time of redemption.

D. The Company has a commercial paper program which is backed by a portion of its revolving credit facility, that enables it to issue commercial paper up to a maximum aggregate principal amount of $600 million or the U.S. dollar equivalent. Commercial paper debt is due within one year but has been classified as long-term debt, reflecting the Company's intent and contractual ability to refinance the short-term borrowing through subsequent issuances of commercial paper or drawing down on the revolving credit facility. Interest rates on commercial paper at December 31, 2001 range from approximately 1.93% to 2.6%.

10 Long-term debt *(continued)*

E. Interest rates for the capital leases range from approximately 3.14% to 14.6% with maturity dates in the years 2002 through 2025. The imputed interest on these leases amounted to $545 million as at December 31, 2001, and $559 million as at December 31, 2000.

The equipment agreements are payable by monthly or semi-annual installments over various periods to 2007 at interest rates ranging from 6% to 9.7%. The principal amounts are payable as follows: $17 million and U.S.$1 million (Cdn$2 million) as at December 31, 2001, and $26 million and U.S.$1 million (Cdn$2 million) as at December 31, 2000. The capital leases, equipment agreements, and other obligations are secured by properties with a net carrying amount of $1,096 million as at December 31, 2001 and $1,064 million as at December 31, 2000.

During 2001, the Company recorded $91 million in assets it acquired through the exercise of purchase options on existing leases and leases for new equipment ($149 million in 2000). An equivalent amount was recorded in debt.

F. Long-term debt maturities for the following fiscal years, including repurchase arrangements and capital lease repayments on debt outstanding as at December 31, 2001 but excluding repayments of commercial paper and revolving credit facilities of $339 million and $273 million, respectively, are as follows:

Year	*In millions* Amount
2002	$ 163
2003	543
2004	547
2005	229
2006	432
2007 and thereafter	3,401

G. The aggregate amount of debt payable in U.S. currency as at December 31, 2001 is U.S.$3,334 million (Cdn$5,302 million) and U.S.$2,290 million (Cdn$3,434 million) as at December 31, 2000.

11 Capital stock and convertible preferred securities

A. Authorized capital stock

The authorized capital stock of the Company is as follows:

- Unlimited number of Common Shares, without par value
- Unlimited number of Class A Preferred Shares, without par value issuable in series
- Unlimited number of Class B Preferred Shares, without par value issuable in series

B. Issued and outstanding common shares

During 2001, the Company issued 2.1 million shares (1.2 million shares in 2000 and 1.4 million shares in 1999) related to stock options exercised. The total number of common shares issued and outstanding was 192.7 million as at December 31, 2001.

In 1999, the Company issued 9.2 million common shares as a result of a public offering.

C. Convertible preferred securities

In 1999, the Company issued 4.6 million convertible preferred securities at U.S.$50 per security. These securities bear interest, payable quarterly in U.S. dollars, at a rate of 5.25% per year, and are due on June 30, 2029. These securities are subordinated securities convertible into common shares of CN at the option of the holder at an original conversion price of U.S.$38.48 per common share, representing an original conversion rate of 1.2995 common shares for each convertible preferred security. On or after July 1, 2002, at the option of CN but subject to certain conditions, the holders' rights to convert these securities may be extinguished if the current market price exceeds 120% of the conversion price for a certain period. If these conditions are met, CN may terminate the conversion rights by giving holders at least 30 days' prior written notice to convert their convertible preferred securities into common shares. If, at closing of the conversion termination date the current market price exceeds the conversion price, all holders shall be deemed to have converted, except to the extent the Trustee has been otherwise instructed by any holder.

D. Stock split

On July 20, 1999, the Board of Directors of the Company approved a two-for-one common stock split which was effected in the form of a stock dividend of one additional common share of CN common stock payable for each share outstanding or held in treasury on September 27, 1999 to shareholders of record on September 23, 1999. All equity based benefit plans reflect the issuance of additional shares or options due to the declaration of the stock split. All shares and per share data reflect the effect of the stock split.

E. Share repurchase programs

On January 23, 2001, the Board of Directors of the Company approved a share repurchase program which allowed for the repurchase of up to 10 million common shares between January 31, 2001 and January 30, 2002 pursuant to a normal course issuer bid, at prevailing market prices. At December 31, 2001, the Company had not repurchased any common shares under the share repurchase program.

In 2000, the Board of Directors of the Company approved a share repurchase program which allowed for the repurchase of up to 13 million common shares of the Company's common stock pursuant to a normal course issuer bid, at prevailing market prices. During 2000, $529 million was used to repurchase 13 million common shares at an average price of $40.70 per share.

12 Stock plans

A. Employee share plan

The Company has an Employee Share Investment Plan (ESIP) giving eligible employees the opportunity to subscribe for up to 6% of their gross salaries to purchase shares of the Company's common stock on the open market and to have the Company invest, on the employee's behalf, a further 35% of the amount invested by the employee. Participation at December 31, 2001 was 9,432 employees (7,916 at December 31, 2000). The total number of ESIP shares purchased on behalf of employees, including the Company's contributions, was 516,726 in 2001 and 637,531 in 2000, resulting in a pre-tax charge to income of $8 million, $6 million and $5 million for the years ended December 31, 2001, 2000 and 1999, respectively.

B. Mid-term incentive share unit plan

The Company has a share unit plan, which was approved by the Board of Directors in 2001, for designated senior management employees entitling them to receive payout on June 30, 2004 of a combination of common stock of the Company, as to fifty percent, and cash value, as to the remaining fifty percent.

The share units vest conditionally upon the attainment of targets relating to the Company's share price during the six-month period ending June 30, 2004. Due to the nature of the vesting conditions, no compensation expense was recognized for 2001. The total number of share units outstanding at December 31, 2001 was 421,500. At December 31, 2001, an additional 43,500 share units remained authorized for future issuances under this plan.

C. Stock options

The Company has stock option plans for eligible employees to acquire common shares of the Company upon vesting at a price equal to the market value of the common shares at the date of granting. The options are exercisable during a period not to exceed 10 years. The right to exercise options generally accrues over a period of four years of continuous employment. Options are not generally exercisable during the first 12 months after the date of grant. At December 31, 2001, an additional 5.5 million common shares remained authorized for future issuances under these plans.

Options issued by the Company include conventional options, which vest over a period of time, and performance options, which vest upon the attainment of Company targets relating to the operating ratio and unlevered return on investment. The total conventional and performance options outstanding at December 31, 2001 were 7.5 million and 2.4 million, respectively.

Changes in the Company's stock options are as follows:

	Number of options	Weighted-average exercise price
	In millions	
Outstanding at December 31, 1998 [1]	7.1	$ 29.11
Granted	3.0	$ 45.46
Canceled	(0.4)	$ 34.51
Exercised	(1.4)	$ 25.43
Outstanding at December 31, 1999 [1]	8.3	$ 34.88
Granted	2.2	$ 35.33
Canceled	(0.4)	$ 36.23
Exercised	(1.2)	$ 22.19
Outstanding at December 31, 2000 [1]	8.9	$ 34.95
Conversion of WC options	1.0	$ 58.63
Granted	2.4	$ 50.65
Canceled	(0.3)	$ 46.01
Exercised	(2.1)	$ 30.43
Outstanding at December 31, 2001 [1][2]	**9.9**	**$43.62**

(1) Includes IC converted stock options translated to Canadian dollars using the foreign exchange rate in effect at the balance sheet date.

(2) Includes WC converted stock options translated to Canadian dollars using the foreign exchange rate in effect at the balance sheet date.

Stock options outstanding and exercisable as at December 31, 2001 were as follows:

	Options outstanding			Options exercisable	
Range of exercise prices	Number of options	Weighted-average years to expiration	Weighted-average exercise price	Number of options	Weighted-average exercise price
	In millions			*In millions*	
$13.50–$23.72	0.3	3	$ 17.90	0.3	$ 17.90
$25.40–$35.01	2.5	7	$ 33.37	1.1	$ 31.14
$35.70–$49.45	4.1	6	$ 44.38	2.7	$ 44.47
$50.02–$69.77	2.8	9	$ 51.66	0.3	$ 55.61
$70.65 and above	0.2	6	$ 94.47	0.1	$ 94.47
Balance at December 31, 2001 [1]	**9.9**	**7**	**$43.62**	**4.5**	**$41.86**

(1) Includes IC and WC converted stock options translated to Canadian dollars using the foreign exchange rate in effect at the balance sheet date.

13 Pensions

The Company has retirement benefit plans under which substantially all employees are entitled to benefits at retirement age, generally based on compensation and length of service and/or contributions. The tables that follow pertain to all such plans. However, the following descriptions relate solely to the Company's main pension plan, the CN Pension Plan (the Pension Plan). The Company's other pension plans are not significant.

Description of plan

The Pension Plan is a contributory defined benefit pension plan that covers substantially all CN employees. It provides for pensions based mainly on years of service and final average pensionable earnings and is generally applicable from the first day of employment. Indexation of pensions is provided after retirement through a gain (loss) sharing mechanism, subject to guaranteed minimum increases. An independent trust company is the Trustee of the Canadian National Railways Pension Trust Funds (CN Pension Trust Funds). As Trustee, the trust company performs certain duties which include holding legal title to the assets of the CN Pension Trust Funds and ensuring that the Company, as Administrator, complies with the provisions of the Pension Plan and the related legislation.

Funding policy

Employee contributions to the Pension Plan are determined by the plan rules. Company contributions are in accordance with the requirements of the Government of Canada legislation, The Pension Benefits Standards Act, 1985, and are determined by actuarial valuations conducted at least on a triennial basis. These valuations are made in accordance with legislative requirements and with the recommendations of the Canadian Institute of Actuaries for the valuation of pension plans.

Description of fund assets

The assets of the Pension Plan are accounted for separately in the CN Pension Trust Funds and consist of cash and short-term investments, bonds, mortgages, Canadian and foreign equities, real estate, and oil and gas assets.

(a) Change in benefit obligation

In millions *Year ended December 31,*	2001	2000
Benefit obligation at beginning of year	**$10,855**	$ 9,935
Interest cost	**701**	690
Actuarial loss	**94**	730
Service cost	**92**	70
Plan participants' contributions	**73**	74
Foreign currency changes	**6**	3
Benefit payments and transfers	**(665)**	(647)
Benefit obligation at end of year	**$11,156**	$10,855

(b) Change in plan assets

In millions *Year ended December 31,*	2001	2000
Fair value of plan assets at beginning of year	**$12,455**	$11,768
Employer contributions	**69**	59
Plan participants' contributions	**73**	74
Foreign currency changes	**6**	3
Actual return on plan assets	**(175)**	1,198
Benefit payments and transfers	**(665)**	(647)
Fair value of plan assets at end of year	**$11,763**	$12,455

(c) Funded status

In millions *December 31,*	2001	2000
Excess of fair value of plan assets over benefit obligation at end of year [1]	**$ 607**	$ 1,600
Unrecognized net actuarial gain [1]	**(537)**	(1,652)
Unrecognized net transition obligation	**39**	59
Unrecognized prior service cost	**133**	153
Net amount recognized	**$ 242**	$ 160

(1) Subject to future reduction for gain sharing under the terms of the plan.

(d) Amount recognized in the Consolidated Balance Sheet

In millions *December 31,*	2001	2000
Prepaid benefit cost *(Note 6)*	**$251**	$166
Accrued benefit cost	**(9)**	(6)
Net amount recognized	**$242**	$160

(e) Components of net periodic benefit cost

In millions *Year ended December 31,*	2001	2000	1999
Interest cost	**$ 701**	$690	$632
Service cost	**92**	70	95
Amortization of net transition obligation	**20**	19	19
Amortization of prior service cost	**20**	19	20
Expected return on plan assets	**(846)**	(792)	(732)
Recognized net actuarial loss	**–**	–	23
Net periodic benefit cost (income)	**$ (13)**	$ 6	$ 57

(f) Weighted-average assumptions

December 31,	2001	2000	1999
Discount rate	**6.50%**	6.50%	7.00%
Rate of compensation increase	**4.00%**	4.25%	4.25%
Expected return on plan assets for year ending December 31	**9.00%**	9.00%	9.00%

14 Special charge

The Company recorded a charge of $98 million, $62 million after tax, in the second quarter of 2001 for the reduction of 690 positions (388 occurred in 2001 with the remainder planned to be completed by the end of 2002). The charge included severance and other payments to be made to affected employees.

15 Interest expense

In millions *Year ended December 31,*	**2001**	2000	1999
Interest on long-term debt	**$314**	$306	$313
Interest income	**(2)**	(11)	(5)
	$312	$295	$308
Cash interest payments	**$307**	$299	$305

16 Other income

In millions *Year ended December 31,*	**2001**	2000	1999
Gain on sale of interest in Detroit River Tunnel Company *(A)*	**$101**	$ –	$ –
Gain on disposal of properties	**53**	57	56
Investment income	**30**	–	12
Foreign exchange gain	**7**	10	6
Gain on exchange of investment *(Note 6)*	**–**	84	–
Net real estate costs	**(20)**	(22)	(25)
Write-down of investment in 360networks Inc. *(Note 6)*	**(99)**	–	–
Other	**(7)**	(3)	(1)
	$ 65	$126	$ 48

A. In March 2001, the Company completed the sale of its 50 percent interest in the Detroit River Tunnel Company (DRT) for proceeds of $112 million and recorded a gain of $101 million, $82 million after tax. The DRT is a 1.6 mile rail-only tunnel crossing the Canada-U.S. border between Detroit and Windsor, Ontario.

17 Income taxes

The Company's income tax expense is as follows:

In millions *Year ended December 31,*	**2001**	2000	1999
Federal tax rate	**28.1%**	29.1%	29.1%
Income tax expense from income before income taxes based on the Federal tax rate	**$(314)**	$(353)	$(283)
Income tax (expense) recovery resulting from:			
Provincial and other taxes	**(134)**	(148)	(160)
Deferred income tax adjustment due to rate reductions	**–**	(4)	–
U.S. tax rate differential	**1**	7	30
Gain on disposals and dividends	**27**	20	8
Other	**28**	36	35
Income tax expense	**$(392)**	$(442)	$(370)
Income tax expense is represented by:			
Current	**$ (85)**	$(224)	$ (45)
Deferred	**(307)**	(218)	(325)
	$(392)	$(442)	$(370)
Cash payments for income taxes	**$ 63**	$ 101	$ 45

Significant components of deferred income tax assets and liabilities are as follows:

In millions *December 31,*	**2001**	2000
Deferred income tax assets		
Workforce reduction provisions	**$ 178**	$ 202
Accruals and other reserves	**182**	228
Post-retirement benefits	**85**	91
Losses and tax credit carryforwards	**53**	26
	498	547
Deferred income tax liabilities		
Properties	**4,074**	2,917
Total net deferred income tax liability	**3,576**	2,370
Net current deferred income tax asset	**153**	116
Net long-term deferred income tax liability	**$3,729**	$2,486

In 2001, the Company recognized investment tax credits of $35 million not previously recognized, which reduced the cost of properties. The Company did not recognize any investment tax credits in 2000.

18 Segmented information

The Company operates in one business segment with operations and assets in Canada and the United States.

Information on geographic areas

In millions *Year ended December 31,*	2001	2000	1999
Revenues:			
Canadian rail	**$3,675**	$3,668	$3,549
U.S. rail	**1,977**	1,778	1,712
	$5,652	$5,446	$5,261
Operating income:			
Canadian rail *(i)*	**$ 966**	$1,025	$ 852
U.S. rail	**400**	360	381
	$1,366	$1,385	$1,233
Net income:			
Canadian rail *(i)*	**$ 591**	$ 589	$ 465
U.S. rail	**136**	185	138
	$ 727	$ 774	$ 603
Depreciation and amortization:			
Canadian rail *(ii)*	**$ 255**	$ 232	$ 212
U.S. rail	**214**	189	195
	$ 469	$ 421	$ 407
Capital expenditures: (iii)			
Canadian rail *(iv)*	**$ 484**	$ 541	$ 717
U.S. rail	**177**	215	249
	$ 661	$ 756	$ 966

In millions *December 31,*	2001	2000
Identifiable assets:		
Canadian rail	**$ 6,987**	$ 6,783
U.S. rail *(v)*	**11,801**	8,336
	$18,788	$15,119

(i) Includes a 2001 special charge for workforce reductions of $98 million, $62 million after tax.

(ii) Includes $6 million (2000: $9 million, 1999: $7 million) of depreciation and amortization of properties related to other business activities.

(iii) Represents additions to properties that includes non-cash capital expenditures financed with capital leases.

(iv) Includes $5 million (2000: $9 million, 1999: $11 million) of additions of properties related to other business activities.

(v) Includes equity holdings in foreign investments held by the Company's U.S. subsidiaries.

19 Earnings per share

The 2000 and 1999 comparative figures have been restated to conform to the new accounting standards as explained in Note 2. The amended CICA Section 1650 "Foreign Currency Translation" requires restatement of prior years' income and as such, earnings per basic and diluted share have increased for both 2000 and 1999 by $0.01, respectively.

Year ended December 31,	2001	2000	1999
Basic earnings per share	**$3.72**	$3.91	$3.03
Diluted earnings per share	**$3.62**	$3.82	$2.98

The following table provides a reconciliation between basic and diluted earnings per share:

In millions *Year ended December 31,*	2001	2000	1999
Net income	**$ 727**	$ 774	$ 603
Dividends on convertible preferred securities	**12**	11	6
	$ 715	$ 763	$ 597
Weighted-average shares outstanding	**192.1**	195.0	197.3
Effect of dilutive securities and stock options	**8.9**	7.8	5.2
Weighted-average diluted shares outstanding	**201.0**	202.8	202.5

20 Major commitments and contingencies

A. Leases

The Company's commitments as at December 31, 2001 under operating and capital leases totaling $1,253 million and $1,449 million, respectively, with annual net minimum payments in each of the five following fiscal years to 2007 and thereafter, are as follows:

Year *In millions*	Operating	Capital
2002	$ 230	$ 186
2003	196	122
2004	176	136
2005	154	95
2006	120	60
2007 and thereafter	377	850
	$1,253	1,449
Less: imputed interest on capital leases at rates ranging from approximately 3.14% to 14.6%		545
Present value of minimum lease payments at current rate included in debt		$ 904

B. Other commitments

As at December 31, 2001, the Company had commitments to acquire railroad ties at a cost of $28 million, rail at a cost of $20 million, and freight cars at a cost of $4 million. Furthermore, as at December 31, 2001, the Company had entered into agreements with fuel suppliers to purchase approximately 35% of its anticipated 2002 volume and 11% of its anticipated 2003 volume at market prices prevailing on the date of the purchase.

C. Contingencies

In the normal course of its operations, the Company becomes involved in various legal actions, including claims relating to contractual obligations, personal injuries including occupational related claims, damage to property and environmental matters. The Company maintains provisions for such items which it considers to be adequate. The final outcome with respect to actions outstanding or pending as at December 31, 2001 cannot be predicted with certainty, and therefore, there can be no assurance that their resolution and any future claims will not have a material adverse effect on the Company's financial position or results of operations in a particular quarter or fiscal year.

D. Environmental matters

The Company's operations are subject to federal, provincial, state, municipal and local regulations under environmental laws and regulations concerning, among other things, emissions into the air; discharges into waters; the generation, handling, storage, transportation, treatment and disposal of waste, hazardous substances, and other materials; decommissioning of underground and aboveground storage tanks; and soil and groundwater contamination. A risk of environmental liability is inherent in the railroad and related transportation operations; real estate ownership, operation or control; and other commercial activities of the Company with respect to both current and past operations. As a result, the Company incurs significant compliance and capital costs, on an ongoing basis, associated with environmental regulatory compliance and clean-up requirements in its railroad operations and relating to its past and present ownership, operation or control of real property.

While the Company believes that it has identified the costs likely to be incurred in the next several years, based on known information, for environmental matters, the Company's ongoing efforts to identify potential environmental concerns that may be associated with its properties may lead to future environmental investigations, which may result in the identification of additional environmental costs and liabilities. The magnitude of such additional liabilities and the costs of complying with environmental laws and containing or remediating contamination cannot be reasonably estimated due to:

(i) the lack of specific technical information available with respect to many sites;

(ii) the absence of any government authority, third-party orders, or claims with respect to particular sites;

(iii) the potential for new or changed laws and regulations and for development of new remediation technologies and uncertainty regarding the timing of the work with respect to particular sites;

(iv) the ability to recover costs from any third parties with respect to particular sites; and

therefore, the likelihood of any such costs being incurred or whether such costs would be material to the Company cannot be determined at this time. There can thus be no assurance that material liabilities or costs related to environmental matters will not be incurred in the future, or will not have a material adverse effect on the Company's financial position or results of operations in a particular quarter or fiscal year, or that the Company's liquidity will not be adversely impacted by such environmental liabilities or costs. Although the effect on operating results and liquidity cannot be reasonably estimated, management believes, based on current information, that environmental matters will not have a material adverse effect on the Company's financial condition or competitive position. Costs related to any future remediation will be accrued in the year in which they become known.

As at December 31, 2001, the Company had aggregate accruals for environmental costs of $112 million ($85 million as at December 31, 2000). During 2001, payments of $14 million were applied to the provision for environmental costs compared to $11 million in 2000 and $16 million in 1999. In addition, related environmental capital expenditures were $19 million in 2001, $20 million in 2000 and $11 million in 1999. The Company also expects to incur capital expenditures relating to environmental matters of approximately $21 million in 2002 and $30 million in each of 2003 and 2004. The Company has not included any reduction in costs for anticipated recovery from insurance.

21 Financial instruments

A. Risk management

The Company has limited involvement with derivative financial instruments in the management of its fuel, interest rate and foreign currency exposures, and does not use them for trading purposes.

(i) Credit risk

In the normal course of business, the Company monitors the financial condition of its customers and reviews the credit history of each new customer.

The Company is exposed to credit risk in the event of non-performance by counterparties to its derivative financial instruments but does not expect such non-performance as counterparties are of high credit quality. Collateral or other security to support financial instruments subject to credit risk is usually not obtained; however, the credit standing of counterparties is regularly monitored. The total risk associated with the Company's counterparties was immaterial at December 31, 2001. The Company believes there are no significant concentrations of credit risk.

21 Financial instruments *(continued)*

(ii) Interest rates
For the purpose of minimizing the volatility in the fair value of certain fixed-interest long-term debt, the Company entered into interest rate swap transactions during 2000 for a total notional amount of $150 million and U.S.$50 million (Cdn$75 million) resulting in effectively converting some fixed interest rate debt into floating interest rate debt. In 2001, these swap transactions matured and the underlying debts have been repaid. The Company did not enter into any new interest rate swap transactions in 2001.

(iii) Foreign currency
Although the Company conducts its business and receives revenues primarily in Canadian dollars, a growing portion of its revenues, expenses, assets and debt are denominated in U.S. dollars. Thus, the Company's results are affected by fluctuations in the exchange rate between these currencies. Changes in the exchange rate between the Canadian dollar and other currencies (including the U.S. dollar) make the goods transported by the Company more or less competitive in the world marketplace and thereby affect the Company's revenues and expenses.

For the purpose of minimizing volatility of earnings resulting from the conversion of the U.S. dollar denominated long-term debt into the Canadian dollar, the Company has designated all U.S. dollar denominated long-term debt of the parent company as a foreign exchange hedge of its net investment in U.S. subsidiaries. As a result, from the dates of designation, unrealized foreign exchange gains and losses on the translation of the Company's U.S. dollar denominated long-term debt are recorded in Currency translation, which forms part of Shareholders' equity.

(iv) Fuel
To mitigate the effects of fuel price changes on its operating margins and overall profitability, the Company has a systematic hedging program which calls for regularly entering into swap positions on crude and heating oil to cover a target percentage of future fuel consumption up to two years in advance.

Realized gains and losses from the Company's fuel hedging activities were $6 million loss, $49 million gain and $5 million gain for the years ended December 31, 2001, 2000 and 1999, respectively. At December 31, 2001, the Company has hedged approximately 45% of the estimated 2002 fuel consumption and 25% of the estimated 2003 fuel consumption. This represents approximately 264 million U.S. gallons at an average price of U.S.$0.607 per U.S. gallon. Unrecognized gains and losses from the Company's fuel hedging activities were $38 million loss, $17 million loss and $9 million gain as at December 31, 2001, 2000 and 1999, respectively.

(v) Other
The Company does not currently have any derivative instruments not designated as hedging instruments.

B. Fair value of financial instruments
Generally accepted accounting principles define the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. The Company uses the following methods and assumptions to estimate the fair value of each class of financial instruments for which the carrying amounts are included in the Consolidated Balance Sheet under the following captions:

(i) Cash and cash equivalents, Accounts receivable, Accounts payable and accrued charges, and Other current liabilities:
The carrying amounts approximate fair value because of the short maturity of these instruments.

(ii) Other assets and deferred charges:
Investments: The Company has various debt and equity investments for which the carrying value approximates the fair value, with the exception of a cost investment for which the fair value was estimated based on CN's proportionate share of its net assets. In 2000, the fair value of the Company's investment in 360networks Inc. was estimated based on the quoted market price.

(iii) Long-term debt:
The fair value of the Company's long-term debt is estimated based on the quoted market prices for the same or similar debt instruments, as well as discounted cash flows using current interest rates for debt with similar terms, company rating, and remaining maturity.

(iv) Convertible preferred securities:
The fair value of the Company's convertible preferred securities is estimated based on the quoted market price.

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments as at December 31, 2001 and 2000 for which the carrying values on the Consolidated Balance Sheet are different from the fair values:

In millions	***December 31, 2001***		*December 31, 2000*	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets				
Investments	**$ 496**	**$ 551**	$ 124	$ 299
Financial liabilities				
Long-term debt (including current portion)	**$5,927**	**$5,986**	$4,320	$4,191
Other				
Convertible preferred securities	**$ 327**	**$ 479**	$ 327	$ 315

22 Reconciliation of Canadian and United States generally accepted accounting principles

The consolidated financial statements of Canadian National Railway Company are expressed in Canadian dollars and are prepared in accordance with Canadian GAAP which conform, in all material respects, with U.S. GAAP except as described below:

A. Reconciliation of net income

The application of U.S. GAAP would have the following effects on the net income as reported:

In millions *Year ended December 31,*	**2001**	2000	1999
Net income – Canadian GAAP	**$ 727**	$774	$603
Adjustments in respect of:			
Property capitalization, net of depreciation	**339**	278	251
Interest on convertible preferred securities	**(19)**	(18)	(9)
Stock-based compensation expense	**(19)**	(3)	(7)
Income tax rate reductions	**122**	(4)	–
Income tax expense on current year U.S. GAAP adjustments	**(110)**	(90)	(92)
Income before cumulative effect of changes in accounting policy – U.S. GAAP	**1,040**	937	746
Cumulative effect of changes in accounting policy	**–**	–	5
Net income – U.S. GAAP	**$1,040**	$937	$751

(i) Property capitalization

Under Canadian GAAP, the Company capitalizes only the material component of track replacement costs, whereas under U.S. GAAP the labor, material and related overheads are capitalized. Furthermore, effective January 1, 1999, the Company capitalized under U.S. GAAP all major expenditures for work that extends the useful life and/or improves the functionality of bridges and other structures and freight cars. U.S. GAAP requires that the cumulative capitalization adjustment, including special charges (net of applicable income taxes), be reflected in net income in the year in which the policy is adopted ($62 million in 1999).

(ii) Stock-based compensation

U.S. GAAP requires the measurement and recognition of expenses related to certain stock-based compensation. The Company has accounted for stock-based compensation for U.S. GAAP purposes in accordance with Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees." There are no similar requirements under Canadian GAAP that are in effect at December 31, 2001.

(iii) Convertible preferred securities

The convertible preferred securities are treated as equity under Canadian GAAP, whereas under U.S. GAAP, they are treated as debt. Consequently, the interest on the convertible preferred securities is treated as a dividend for Canadian GAAP but as interest expense for U.S. GAAP.

(iv) Foreign exchange

In 2001, the Company early adopted the CICA amended recommendations of Section 1650 "Foreign Currency Translation" which essentially harmonizes Canadian and U.S. accounting standards by eliminating the deferral and amortization of unrealized translation gains or losses on foreign currency denominated monetary items that have a fixed or ascertainable life extending beyond the end of a fiscal year and recognizing them into net income for the current period. As required by the amended section, the Company has retroactively restated all prior period financial statements presented.

(v) Income tax expense

In 2001, under U.S. GAAP, the Company recorded a reduction to its net deferred income tax liability resulting from the enactment of lower corporate tax rates in Canada. As a result, a deferred income tax recovery of $122 million was recorded in the Consolidated Statement of Income and a deferred income tax expense of $32 million was recorded in Other comprehensive income. For Canadian GAAP purposes, there was no adjustment in 2001 as the impact resulting from lower corporate tax rates was accounted for in 2000 when the rates were substantively enacted. For the year ended December 31, 2000, the Canadian GAAP adjustment was a $4 million expense as the deferred tax position under Canadian GAAP was different.

(vi) Change in accounting policy – Pensions and post-retirement benefits other than pensions

In 1999, the Company adopted the CICA recommendations related to the accounting for employee future benefits, essentially to harmonize Canadian GAAP with U.S. GAAP.

Prior to 1999, the Company measured its pension benefit and post-retirement benefit obligations, for Canadian GAAP purposes, using a discount rate based on management's best estimate of the long-term rate of return on the pension fund assets. Under U.S. GAAP, the discount rate to be used should reflect the rate at which the pension benefits and post-retirement benefit costs can be effectively settled at the date of the financial statements. The difference in discount rates impacted annual pension expense and post-retirement benefit costs prior to 1999.

In 1999, the Company changed its method of accounting for employee injury costs to reflect all elements of such costs (including compensation, health care and administration costs) based on actuarially developed estimates of the ultimate cost associated with employee injuries. U.S. GAAP requires that the cumulative adjustment, net of applicable income taxes, be reflected in net income in the year in which the policy is adopted ($57 million in 1999).

22 Reconciliation of Canadian and United States generally accepted accounting principles *(continued)*

B. Earnings per share

In 2000, the Company early adopted the CICA recommendations related to the presentation of earnings per share. Although the standard essentially harmonizes Canadian and U.S. standards, the earnings per share calculations continue to differ due to differences in the earnings figures.

(i) Basic earnings per share

Year ended December 31,	**2001**	2000	1999
Income before cumulative effect of changes in accounting policy – U.S. GAAP	**$5.41**	$4.81	$3.78
Cumulative effect of changes in accounting policy	**–**	–	0.03
Net income – U.S. GAAP	**$5.41**	$4.81	$3.81
Weighted-average number of common shares outstanding *(millions)* – U.S. GAAP	**192.1**	195.0	197.3

(ii) Diluted earnings per share

Year ended December 31,	**2001**	2000	1999
Income before cumulative effect of changes in accounting policy – U.S. GAAP	**$5.23**	$4.67	$3.71
Cumulative effect of changes in accounting policy	**–**	–	0.03
Net income – U.S. GAAP	**$5.23**	$4.67	$3.74
Weighted-average number of common shares outstanding *(millions)* – U.S. GAAP	**201.0**	202.8	202.5

C. Reconciliation of significant balance sheet items

(i) Joint ventures

Effective for 2001, the Company's interests in joint ventures are not significant. As a result, the difference between accounting for them using the equity method under U.S. GAAP and using the proportionate consolidation method under Canadian GAAP has not been disclosed separately.

(ii) Shareholders' equity

As permitted under Canadian GAAP, the Company eliminated its accumulated deficit of $811 million as of June 30, 1995 through a reduction of the capital stock in the amount of $1,300 million, and created a contributed surplus of $489 million. Such a reorganization within Shareholders' equity is not permitted under U.S. GAAP.

Under Canadian GAAP, the dividend in kind declared in 1995 (with respect to land transfers) and other capital transactions were deducted from Contributed surplus. For U.S. GAAP purposes, these amounts would have been deducted from Retained earnings.

Under Canadian GAAP, costs related to the sale of shares have been deducted from Contributed surplus. For U.S. GAAP purposes, these amounts would have been deducted from Capital stock.

Under Canadian GAAP, the excess in cost over the stated value resulting from the repurchase of shares was allocated first to Capital stock, then to Contributed surplus and finally to Retained earnings. Under U.S. GAAP, the excess would have been allocated to Capital stock followed by Retained earnings.

For Canadian and U.S. GAAP purposes, the Company designated all U.S. dollar denominated long-term debt of the parent company as a foreign exchange hedge of its U.S. subsidiaries. Under Canadian GAAP, the resulting net unrealized foreign exchange gain, from the date of designation, has been included in Currency translation. For U.S. GAAP purposes, the resulting net unrealized foreign exchange gain as well as a minimum pension liability adjustment has been included as part of Other comprehensive income in the Consolidated Statement of Comprehensive Income and Accumulated other comprehensive income, a separate component of Shareholders' equity, as required under Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income." There are no requirements under Canadian GAAP to record a minimum pension liability adjustment.

(iii) Investment in 360networks Inc.

In 2001, under U.S. GAAP, the Company recorded a charge to write down its net investment in 360networks Inc. Prior to the write-down, in accordance with U.S. GAAP, the Company accounted for its investment in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The shares were classified as "available-for-sale securities" whereby the investment was carried at market value on the balance sheet as part of Other assets and deferred charges and the changes in the value of the investment were recorded in Other comprehensive income as an unrealized holding gain (loss). For Canadian GAAP purposes, the investment was accounted for on a historical cost basis.

(iv) Derivative instruments

On January 1, 2001, under U.S. GAAP, the Company adopted SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities." In accordance with these statements, the Company has recorded in its balance sheet the fair value of derivative instruments used to hedge a portion of the Company's fuel requirements. Changes in the market value of these derivative instruments have been recorded in Other comprehensive income. There are no similar requirements under Canadian GAAP.

(v) Convertible preferred securities

The convertible preferred securities are treated as equity under Canadian GAAP, whereas under U.S. GAAP they are treated as debt. Consequently, the costs related to the issuance of the convertible preferred securities are, for Canadian GAAP purposes, treated as an equity transaction and netted against the consideration received while under U.S. GAAP, the costs are reported as deferred charges and amortized over the term to maturity.

(vi) The application of U.S. GAAP would have a significant effect on the following balance sheet items as reported:

In millions December 31,	2001	2000
Current assets – Canadian GAAP	$ 1,164	$ 1,125
Joint ventures and other	–	(17)
Current assets – U.S. GAAP	$ 1,164	$ 1,108
Properties – Canadian GAAP	$16,723	$13,583
Property capitalization, net of depreciation	2,422	2,053
Joint ventures and other	–	2
Properties – U.S. GAAP	$19,145	$15,638
Other assets and deferred charges – Canadian GAAP	$ 901	$ 411
Debt issue costs	12	12
Intangible asset	1	–
Investment in 360networks Inc.	–	129
Joint ventures and other	–	16
Other assets and deferred charges – U.S. GAAP	$ 914	$ 568
Current liabilities – Canadian GAAP	$ 1,638	$ 1,915
Fuel derivative instruments	31	–
Joint ventures and other	–	(10)
Current liabilities – U.S. GAAP	$ 1,669	$ 1,905
Deferred income tax liability – Canadian GAAP	$ 3,729	$ 2,486
Cumulative effect of prior years' adjustment to income	845	725
Income taxes on current year U.S. GAAP adjustments	110	90
Income taxes on translation of convertible preferred securities	8	–
Income taxes on translation of U.S. to Canadian GAAP adjustments to the net investment in foreign operations	5	–
Investment in 360networks Inc.	–	35
Cumulative effect of change in accounting policy – Foreign exchange	–	30
Income taxes on minimum pension liability adjustment	(6)	–
Income taxes on fuel derivative instruments	(13)	–
Income tax rate reductions	(86)	4
Joint ventures and other	(1)	5
Deferred income tax liability – U.S. GAAP	$ 4,591	$ 3,375
Other liabilities and deferred credits – Canadian GAAP	$ 1,296	$ 1,193
Stock-based compensation	24	13
Minimum pension liability adjustment	18	–
Fuel derivative instruments	7	–
Joint ventures and other	–	(1)
Other liabilities and deferred credits – U.S. GAAP	$ 1,345	$ 1,205

In millions December 31,	2001	2000
Capital stock – Canadian GAAP	$ 3,209	$ 3,124
Capital reorganization	1,300	1,300
Costs related to the sale of shares	(33)	(33)
Stock-based compensation	48	40
Share repurchase program	(82)	(82)
Capital stock – U.S. GAAP	$ 4,442	$ 4,349
Convertible preferred securities – Canadian GAAP	$ 327	$ 327
Debt issue costs	12	12
Unrealized exchange loss on convertible preferred securities	27	6
Convertible preferred securities (classified as debt) – U.S. GAAP	$ 366	$ 345
Contributed surplus – Canadian GAAP	$ 178	$ 178
Dividend in kind with respect to land transfers	248	248
Costs related to the sale of shares	33	33
Other transactions and related income tax effect	18	18
Share repurchase program	12	12
Capital reorganization	(489)	(489)
Contributed surplus – U.S. GAAP	$ –	$ –
Currency translation – Canadian GAAP	$ 133	$ 61
Unrealized foreign exchange gain on translation of U.S. to Canadian GAAP adjustments to the net investment in foreign operations, net of applicable taxes	10	–
Unrealized exchange loss on convertible preferred securities, net of applicable taxes	(17)	(4)
Fuel derivative instruments, net of applicable taxes	(25)	–
Income tax rate reductions	(32)	–
Minimum pension liability adjustment, net of applicable taxes	(11)	–
Investment in 360networks Inc., net of applicable taxes	–	94
Accumulated other comprehensive income – U.S. GAAP	$ 58	$ 151
Retained earnings – Canadian GAAP	$ 2,514	$ 1,949
Cumulative effect of prior years' adjustments to income	1,136	912
Current year adjustments to net income	313	163
Share repurchase program	70	70
Cumulative effect of change in accounting policy – Foreign exchange	–	61
Cumulative dividend on convertible preferred securities	32	20
Capital reorganization	(811)	(811)
Dividend in kind with respect to land transfers	(248)	(248)
Other transactions and related income tax effect	(18)	(18)
Retained earnings – U.S. GAAP	$ 2,988	$ 2,098

23 Quarterly financial data – unaudited

In millions, except per share data

	2001				2000			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Revenues	$1,537	$1,325	$1,392	$1,398	$1,396	$1,334	$1,337	$1,379
Operating income	$ 428	$ 331	$ 245	$ 362	$ 344	$ 321	$ 346	$ 374
Net income	$ 238	$ 178	$ 40	$ 271	$ 175	$ 161	$ 188	$ 250
Basic earnings per share	$ 1.22	$ 0.91	$ 0.19	$ 1.40	$ 0.90	$ 0.82	$ 0.95	$ 1.23
Diluted earnings per share	$ 1.18	$ 0.88	$ 0.19	$ 1.36	$ 0.88	$ 0.80	$ 0.93	$ 1.20
Dividend declared per share	$0.195	$0.195	$0.195	$0.195	$0.175	$0.175	$0.175	$0.175

24 Comparative figures

Certain figures, previously reported for 2000 and 1999, have been reclassified to conform with the basis of presentation adopted in the current year.

General review

Trustee

Through December 31, 2001, Montreal Trust Company of Canada (Montreal Trust) was the Trustee of the Canadian National Railways Pension Trust Funds (CN Pension Trust Funds, or Funds). As Trustee, Montreal Trust performed certain duties which included holding legal title to the assets of the Funds and ensuring that Canadian National Railway Company (CN), as Administrator, complies with the provisions of the CN Pension Plan, the CN 1935 Pension Plan and the Pension Benefits Standards Act, 1985 and its regulations. The checks and direct deposit statements in respect of these plans were issued in the name of Montreal Trust, Trustee of the CN Pension Trust Funds.

Effective January 1, 2002, CIBC Mellon Trust Company has been appointed as the new Trustee of the CN Pension Trust Funds.

Administration of the pension plans

Overall accountability for the pension and benefit administration is the responsibility of CN. William M. Mercer Limitée, an employee benefits consulting firm, performs agreed-on pension and benefit administration services on behalf of CN.

Pension benefits

A. Pension improvements

On January 1, 2001, retirees and surviving spouses eligible for regular pension indexation received an additional pension increase based on the number of years that retirees had been on pension and their pensionable service at the time of retirement. This was based on a recommendation made by the Pension Committee in 2000 and approved by CN's Board of Directors.

In 2001, CN's Board of Directors also approved the following recommendations made by the Pension Committee to increase certain benefits:

- Increase in the pension formula from 1.5%/2.0% to 1.6%/2.0% for active members on January 1, 2001, and to 1.7%/2.0% for active members on January 1, 2002, for each year of pensionable service from January 1, 1966.
- Shorten the eligibility requirements to qualify for indexation from age 60 and at least five complete calendar years since retirement to age 59 and at least four complete calendar years since retirement effective January 1, 2002.
- Index pensions at 75% of inflation rather than 60% of inflation for 2002 only. This means that retirees and survivors who meet the eligibility requirements will see their 2002 pension increase by 2.25% instead of 1.8% on the first $3,000 of basic monthly pension. This is a lifetime pension benefit increase.
- Special improvement to pensions payable to eligible retirees and surviving spouses entitled to indexation on January 1, 2002, based on the number of years that such retirees have been on pension and their pensionable service at time of retirement.

In addition to the above improvements, the CN Pension Plan has been amended to provide for the reduction in the basic employee contribution rates from 5.48%/6.98% to 4.3%/6.3%, effective January 1, 2002, to reflect an agreement that CN reached with five of its six unions on the implementation of an employee-paid Long Term Disability Plan (LTD) for unionized employees active on January 1, 2002 and thereafter. The remaining union established an employee-paid LTD plan in 1999 and the members of such union will also benefit from the contribution reductions, subject to the same conditions as for the other unionized members. Disability pensions under the CN Pension Plan will be reduced to reflect the benefit payable under this new LTD plan.

The non-unionized employees will also benefit from the contribution reductions but the full cost of this reduction will be charged to the Non–Unionized Improvement Account as they have been covered by a CN-paid long term disability plan under the CN Flex Benefit Program for many years.

B. Indexation agreement and escalation account

As a result of the indexation agreement negotiated with the railway unions in 1989 and improvements to such agreement negotiated in 1992 and 1998, approximately 41,400 retirees and surviving spouses received permanent pension increases in 2001. These increases amounted to 1.44% on the first $2,750 of the basic CN monthly pension, with a guaranteed minimum monthly pension increase of $9.00 for eligible retirees and $4.50 for eligible surviving spouses.

Under this indexation agreement, effective January 1, 1989, 50% of the experience gains or losses related to pensioners are accounted for separately in the Escalation Account. Net experience gains are used to pay for indexation of pensions above the minimum up to the maximum annual amount. The maximum annual indexation for eligible retirees and survivors is 60% (75% for the 2002 indexation) of the increase in the Consumer Price Index (CPI) to a maximum increase in CPI of 6%, with an annual limit on the amount of pension which can be indexed.

In addition, the Pension Committee may recommend additional benefits for pensioners, financed from the Escalation Account, if the balance in the account exceeds a certain threshold. These additional benefits are subject to approval by CN's Board of Directors. Such additional benefits were granted on January 1, 2001, to retirees and surviving spouses eligible for the regular indexation. In addition to the regular indexation, approximately 41,400 pensioners received an average increase of 4.1% in their pension.

Also, in 2001, CN's Board of Directors approved the Pension Committee's unanimous recommendation to broaden the eligibility criteria for pension indexation, increase maximum indexation for 2002 only and to increase pension payments for eligible retirees and surviving spouses, effective January 1, 2002 as indicated under section *A.* Pension improvements. The value of such improvements was charged to the Escalation Account in the current valuation.

The basic eligibility requirements, in 2001, to qualify for indexation and the additional benefits were to have been retired for five complete calendar years and to have reached age 60. Effective 2002, the eligibility requirements to qualify for indexation and the additional benefits will be shortened to four complete calendar years after retirement and to have reached age 59.

C. Improvement accounts
Effective January 1, 1998, the unions and CN agreed to share the experience gains (losses) resulting from investment earnings related to active unionized members of the CN Pension Plan, based on the same concept as the indexation agreement. Under this agreement, annual calculations will determine the amount of experience gains or losses to be credited (debited) to an account referred to as an Improvement Account and the balance of such account, if positive, may be used to improve benefits of unionized active members or reduce their contributions, as recommended by the Pension Committee and approved by CN's Board of Directors. The Improvement Account concept was also extended to non-unionized members and separate accounts were created for unionized and non-unionized members.

In 2001, CN's Board of Directors approved the Pension Committee's unanimous recommendation to increase the pension formula as indicated under section *A.* Pension improvements. The value of such improvements was charged to the Improvement Accounts in the current valuation.

Annual pension statements
As required by the Pension Benefits Standards Act, 1985 and to keep employees who are members updated annually on their personal entitlement, personalized pension statements were prepared as at December 31, 2000 and distributed by June 2001.

Services to pensioners
A. Direct deposit:
The Direct Deposit System (DDS) is available to all retirees and survivors. Under this system, the monthly pension benefit is deposited directly into the individual's personal account. An itemized pension pay stub is sent to that individual initially, each January and whenever the gross or net amount changes. About 41,000 pensioners used this service in 2001.

B. Toll-free help lines:
Approximately 51,500 calls were handled in 2001 through the central toll-free help line (1-800-361-0739). Staff handling the toll-free telephone line have ready access to records and information required for quick, efficient and accurate responses to most callers' needs – in both of Canada's official languages.

Trustee's report

To the Administrator and the Members of the CN Pension Plan and the CN 1935 Pension Plan

We, Montreal Trust Company of Canada, are the Trustee of the Canadian National Railways Pension Trust Funds ("CN Pension Trust Funds").

As Trustee, we have appointed KPMG LLP to examine the systems, procedures and internal controls used in respect to the custody, investment, and administration of the assets of the CN Pension Trust Funds, the administration of the CN Pension Plan and the CN 1935 Pension Plan ("1935 Plan"), and the performance of Canadian National Railway Company ("CN") as Administrator of the CN Pension Plan and the 1935 Plan for the year ended December 31, 2001.

Our examination included such tests and procedures as were considered necessary in the circumstances taking into consideration the requirements of the Trust Deeds and our experience in the Canadian pension industry.

In our opinion, based on the reasonable, but not absolute, degree of assurance obtained from the examination performed, the aforementioned systems, procedures and internal controls, used by CN as Administrator, operated effectively during the year ended December 31, 2001, and complied with the objectives of the Pension Benefits Standards Act, 1985 and its Regulations.

Montreal Trust Company of Canada
Trustee of the Canadian National Railways
Pension Trust Funds for the year 2001

Montreal, January 22, 2002

Actuary's report

To the Board of Directors
Canadian National Railways Pension Trust Funds

We have conducted actuarial valuations for funding purposes as at December 31, 2000 for the CN Pension Plan and the CN 1935 Pension Plan.

As at December 31, 2000, these valuations revealed a consolidated actuarial liability of $10,035 million, a consolidated surplus of $417 million and a current service cost net of plan members' contribution of $75 million in 2001. The next actuarial valuations will be conducted as at December 31, 2003, at the latest.

In my opinion, for the purposes of the valuations,

- the data on which these valuations were based were sufficient and reliable,
- the assumptions are, in aggregate, appropriate; and
- the methods employed in the valuations are appropriate.

We have also conducted actuarial valuations for accounting purposes as at December 31, 2000 for the CN Pension Plan and the CN 1935 Pension Plan.

These valuations were made in accordance with the requirements of Section 3461 of the Handbook of the Canadian Institute of Chartered Accountants (CICA). They revealed a consolidated actuarial liability of $10,722 million.

The difference between the results of the actuarial valuations conducted for funding purposes and those conducted for accounting purposes is mainly due to the CICA Section 3461 requirement to use an interest rate inherent in the amount at which the actuarial liability could be settled at the date of valuation.

Both valuations have been prepared and, my opinions given, in accordance with accepted actuarial practice.

Bernard Morency

Bernard Morency
Fellow of the Canadian Institute of Actuaries
William M. Mercer Limitée

Montreal, January 22, 2002

Auditors' report

To the Board of Directors of
Canadian National Railway Company

We have audited the consolidated statement of net assets of the CN Pension Plan and the CN 1935 Pension Plan as at December 31, 2001, and the consolidated statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Administrator. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Administrator, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the net assets of the CN Pension Plan and the CN 1935 Pension Plan as at December 31, 2001, and the changes in their net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

KPMG LLP
Chartered Accountants

Montreal, Canada
January 22, 2002

Consolidated Statement of Net Assets at Market Value

In millions As at December 31,	2001	2000
Bonds	$ 3,733	$ 3,744
Mortgages	272	261
Real estate	271	261
Oil and gas	468	377
Equities	6,033	7,255
Cash and short-term investments	890	421
	11,667	12,319
Receivable from Canadian National Railway Company	5	21
Net other assets (liabilities)	(1)	16
	$11,671	$12,356

On behalf of the Board:

David G.A. McLean
Director

Paul M. Tellier
Director

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets at Market Value

In millions *Year ended December 31,*	**2001**	2000
Net assets at market value, beginning of year	**$12,356**	$11,664
Investment income		
Bonds	**238**	190
Mortgages	**18**	20
Real estate	**11**	8
Oil and gas	**48**	46
Equities	**88**	74
Short-term investments	**20**	23
	423	361
Less administrative expenses	**(18)**	(15)
Investment income before net gain on sale of investments	**405**	346
Net gain on sale of investments	**486**	919
Total investment income	**891**	1,265
Unrealized depreciation in value of investments	**(1,060)**	(69)
Contributions		
Employees	**73**	74
Company	**69**	59
Total contributions	**142**	133
Disbursements for members		
Pension benefits paid	**(618)**	(587)
Refunds	**(43)**	(47)
Total disbursements for members	**(661)**	(634)
Transfers	**3**	(3)
Net increase (decrease)	**(685)**	692
Net assets at market value, end of year	**$11,671**	$12,356

See accompanying notes to consolidated financial statements.

1 Description of plans

These consolidated financial statements cover two pension plans, the CN Pension Plan and the CN 1935 Pension Plan (CN Plans), and include the accounts of the Canadian National Railways Pension Trust Funds and its wholly owned companies. All references in these financial statements to the "Company" refer to Canadian National Railway Company, which is the Administrator of the CN Plans. The CN 1935 Pension Plan is for a closed group of members and represents less than 1% of the pension obligation of the plans. Therefore, the following is a summarized description of the CN Pension Plan only. Please refer to the rules of the CN Pension Plan for additional information.

A. General

The CN Pension Plan (the Plan) is a contributory defined benefit pension plan generally applicable for new employees from the first day of employment. Under this Plan, employees contribute between 5.48% and 5.88% (4.3% and 4.7% effective January 1, 2002) of earnings up to the Year's Maximum Pensionable Earnings (YMPE) under the Canada or Quebec Pension Plan and between 6.98% and 7.38% (6.3% and 6.7% effective January 1, 2002) of earnings in excess of the YMPE up to a maximum of $5,945 in 2001. Participants are not required to make contributions after 35 years of pensionable service. Company contributions are determined on the basis of actuarial valuations done at least on a triennial basis in accordance with the requirements of the Pension Benefits Standards Act, 1985 and Regulations thereunder.

B. Pensions

Pensions are based on the employee's average pensionable earnings for the best five consecutive calendar years or the last 60 months of employment at the rate of 2% for each year of pensionable service prior to January 1, 1966, 1.6% for each year of pensionable service thereafter up to the average YMPE over the last 60 months (1.7% for active employees as of January 1, 2002), and 2% of the excess of such average pensionable earnings over the average YMPE. The maximum annual pension payable is $1,715 multiplied by the pensionable service of the member. Pensionable service is limited to 35 years.

C. Retirement age

The normal retirement age is 65. However, employees with 85 points (age plus pensionable service) and with the Company's consent are entitled to an early retirement pension without reduction as long as they are at least 55 years of age. Furthermore, employees with less than 85 points can retire anytime from age 55 with a reduction in their pension of 0.5% for each month (6% per year) between their date of retirement and their 65th birthday.

D. Disability pensions

A member with 10 years of pensionable service who is either declared unfit to perform his/her usual employment with the Company due to a permanent disability which occurred prior to 1992, or is declared totally and permanently disabled due to a disability which occurred after 1991, may, subject to certain conditions, apply for an immediate reduced or unreduced pension. Any declarations in respect of a member's disability are the responsibility of CN's Chief Medical Officer. The disability pension may be adjusted to take into account benefits payable under a long-term disability plan or under a Workers' Compensation Act of any province.

E. Pre-retirement survivors' pensions and death refunds

A survivor's pension is payable to the eligible spouse of a member who had a minimum of two years of plan membership upon his/her death. Otherwise, a death refund is payable to the spouse, or, if there is no spouse, to the estate of the member.

F. Post-retirement survivors' pensions and estate settlements

Upon the death of a retiree who had an eligible spouse at retirement, either 55% or 60% of the basic pension of the retiree is payable to that spouse during his/her lifetime depending on the option elected at retirement. The survivor pension is guaranteed for the first 10 years after retirement. If the retiree and the surviving spouse, if any, die in the first 10 years after retirement, the survivor pension will be payable to the estate of the retiree until the 10-year period is over.

G. Termination benefits

Upon termination of service, a member is entitled to either his/her contributions with interest or to the value of his/her benefits accrued under the Plan or to a deferred pension or a combination of the above, depending on his/her age, pensionable service and years of membership at termination.

H. Income taxes

The Plan is registered under the Income Tax Act and Regulations. Contributions to the Plan are tax deductible and investment income of the Canadian National Railways Pension Trust Funds is not taxable in Canada. Investment income from some foreign countries is subject to withholding taxes, which are either fully or partially recovered.

2 Summary of significant accounting policies

A. Basis of presentation

These consolidated financial statements are prepared on a market value basis, in accordance with generally accepted accounting principles in Canada for pension plans, which require management to make estimates and assumptions that affect the reported amounts at the date of the financial statements. Actual results could differ from these estimates. These statements present the aggregate financial position of the CN Plans as a separate financial reporting entity independent of the sponsor and plan members, and are prepared to assist plan members and others in reviewing the activities of the CN Plans for the year, but they do not portray the funding requirements of the CN Plans or the benefit security of individual members.

B. Valuation of net assets

Market value is determined using publicly quoted prices where available. When such prices are not available, market values are estimated on the basis of: the present value of estimated future net cash flows, the market value of comparable assets, or the breakup value of underlying assets.

Valuation of net assets by category is as follows:

(i) Bonds are valued using the closing market bid as at December 31.

(ii) Mortgages are valued using current market yields of financial instruments of similar maturity and at appropriate spreads from instruments of comparable quality.

(iii) Real estate consists of land and buildings. Land is valued using the market value of comparable assets, and buildings are valued using the present value of estimated future net cash flows and the market value of comparable assets. Independent valuations of land and buildings are performed triennially.

(iv) Oil and gas reserves are valued using the present value of estimated future net cash flows, which are based on projected production, prices, and costs. Land is valued using the market value of comparable assets. Trust units and equities are valued using the closing market price as at December 31.

(v) Equities are valued using the closing market price as at December 31.

(vi) Short-term investments and other assets are valued at cost, which approximates market value.

(vii) Listed derivative financial instruments are valued using the market settlement price as at December 31. Unlisted derivative financial instruments are valued using the present value of future net cash flows determined by using closing market levels and interest rates for instruments of similar maturity and credit risk.

C. Income recognition

Dividends are accrued on the ex-dividend date; income from other investments is accrued as earned. Gains or losses on sales of investments are recognized on the dates of sales and are calculated on the basis of the average cost of the assets.

D. Foreign exchange

Assets and liabilities denominated in foreign currencies are translated using current rates as at December 31 or at the forward foreign exchange contract rates for investments that are hedged. Foreign dividends and interest income are translated at the rates prevailing when accrued.

E. Change in market value

The change in market value has been segregated in the Consolidated Statement of Changes in Net Assets at Market Value between Net gain (loss) on sale of investments during the year and the Unrealized appreciation (depreciation) in value of investments, which is the balance of the change in market value of investments for the year.

F. Contributions

Contributions from employees are recorded in the period in which the Company makes payroll deductions. The contributions from the Company, as determined by the latest actuarial valuations, are recorded using the accrual method.

G. Transfers

Transfers to/from other funds are accounted for in the period in which the value of the transfers can be reasonably estimated.

3 Investments

All investments are securities, assets or financial instruments where the CN Plans' original intention is to hold to maturity or until market conditions render alternative investments more attractive. Significant terms and conditions of investments as at December 31 are as follows:

Bonds, 90% (91% in 2000) of which are issued or guaranteed by Canadian or U.S. governments, 9% (7% in 2000) by corporations, and 1% (2% in 2000) by supranational agencies, have a market weighted average coupon of 6.5% (6.3% in 2000). Maximum term is 30 years (31 years in 2000) with an average term of 10.2 years (10.3 years in 2000).

Mortgages, secured by real estate, have a market weighted-average coupon of 7.9% (7.9% in 2000). Maximum term is 23 years (24 years in 2000), with an average term of 9.3 years (8.4 years in 2000).

Equities are diversified by issuer, industry and by country. Canadian domiciled companies represent 46% (48% in 2000) of the equity portfolio and allocations to individual issuers or industry sectors are limited to 3.5% and 17.7% (3.0% and 15.5% in 2000), respectively.

Short-term investments, primarily securities issued by governments in Canada and Canadian chartered banks, have an average term of 28 days (32 days in 2000) and an average yield of 2.6% (5.8% in 2000).

3 Investments *(continued)*

Derivatives are financial instruments whose value is derived from interest rates, foreign exchange rates, equity or commodity prices. Derivatives include forwards, futures, swaps and options.

From time to time, the CN Plans use derivatives for asset mix management purposes or to hedge the exposure to foreign currency, interest rate or market risks of the portfolio or anticipated transactions.

Notional amounts of derivative contracts by risk category affected were as follows:

In millions *As at December 31,*	2001	2000
Foreign currency	**$932**	$1,713
Interest rate	**$335**	$ 889
Equity and commodity	**$ 9**	$ 5

The weighted-average term of the above contracts was 246 days (81 days in 2000). The total value of derivative instruments is negligible ($33.5 million in 2000) and is included in the values of bonds, mortgages and equities, which are the asset classes affected.

Approximately two thirds of derivative contracts were used to hedge foreign currency exposures.

4 Credit risk

Credit risk arises from the potential for an investee to fail or a counterparty to default on its contractual obligations to the CN Plans.

In accordance with formally established policies, the CN Plans manage credit risk by dealing with counterparties considered to be of high credit quality, utilizing an internal credit limit monitoring process as well as credit mitigation techniques such as master netting and collateral agreements.

At year end, the CN Plans' most significant concentrations of credit risk were with the governments of Canada and the United States which issued or guaranteed $3,181 million and $192 million ($1,844 million and $996 million in 2000), respectively, of securities held by the CN Plans. Excluding the above, the remainder of assets are diversified with no other issuer accounting for more than 3.3% (2.0% in 2000) of total net assets.

The credit risk of derivative instruments is limited to the cost of replacing, at current market value, all contracts which have a positive value. The following table shows the credit risk of all derivative instruments outstanding at year end.

Credit risk – Derivative instruments

In millions *As at December 31,*	2001	2000
Maximum exposure	**$15**	$34
Effect of master netting and collateral agreements	**(2)**	–
Net credit risk	**$13**	$34

5 Funding policy

In respect of the CN Plans, the contributions by the Company are determined in accordance with the requirements of the Pension Benefits Standards Act, 1985 and Regulations thereunder, and are based on the projected unit credit actuarial cost method, with projection of salaries where future salary changes affect the amount of the projected benefits. In the case of the CN 1935 Pension Plan, the Company makes money purchase contributions in accordance with the rules of the plan.

The latest actuarial valuations of the CN Plans were prepared by William M. Mercer Limitée as at December 31, 2000 and were submitted to the Superintendent of Financial Institutions and to the Canada Customs and Revenue Agency. In these actuarial valuations, the principal assumptions adopted by the CN Plans' actuary are: members' mortality, disability, retirement, termination of employment, merit and periodic increases in earnings, as well as a long-term rate of return of 7.25% (7.5% at the previous valuation) per annum on investments. Future increases in members' earnings have been projected using economic assumptions consistent with this long-term rate of return.

6 Transfers

In 2001, the accounts include a provision for the amounts to be remitted to/from other funds to cover transfers of members of CN Plans to other pension plans and transfers of members of other plans to the CN Plans.

7 Consolidated actuarial pension obligation and asset value

The actuarial valuations as at December 31, 2000 revealed a consolidated actuarial liability of $10,722 million and a consolidated actuarial asset value of $10,452 million. The results of these valuations were then used to estimate the corresponding figures as at December 31, 2001, which approximate $11,046 million and $10,970 million, respectively, as at that date. The principal components of the change in the pension obligations are the interest accrued on benefits ($693 million in 2001 and $682 million in 2000), benefit payments and transfers ($655 million in 2001 and $637 million in 2000), benefits accrued during the year ($163 million in 2001 and $143 million in 2000), and actuarial loss ($123 million in 2001 and $738 million in 2000). The consolidated actuarial liability was calculated in accordance with the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3461 using a discount rate of 6.5% as at December 31, 2001 and December 31, 2000. The consolidated actuarial asset value is based on a market-related method, which recognizes the change in market value over a period of five years using the straight-line method.

2001 President's Awards for Excellence

In a celebration of outstanding achievement, a select number of CN employees were recognized at the 2001 President's Awards for Excellence held in Montreal in October. The award recipients, from throughout the CN system, were honored for helping to move the business forward in a wide variety of important ways. Their accomplishments are representative of the firm commitment to excellence and innovative spirit that makes CN North America's best railroad.

Category: New Business Opportunities

The Williams Energy Team – *Gary Dale Adkins, Memphis, Tennessee; Josée Courchesne, Montreal, Quebec; Louis Homan, Memphis, Tennessee; Jeff Liepelt, Geismar, Louisiana; Debra Rae, Calgary, Alberta; Bruce Rieck, Edmonton, Alberta; Rodney Shulha, Edmonton, Alberta; Sherri Stark, Montreal, Quebec; Roger Stenvold, Edmonton, Alberta*

This "virtual" team showed what can be done when knowledge and experience from different corners of the company are combined. They put their heads together and worked to secure a new multiyear contract with Williams Energy, a Tulsa, Oklahoma-based company providing a full range of energy-related products and services.

Category: Safety

Chad A. Anderson, Centralia, Illinois

When Chad got involved in developing a policy to protect employees working on tracks, he went the extra mile. His policy became the model, which is now used by the FRA on other U.S. railroads. It not only improves safety but also minimizes the impact on train operations and has resulted in satisfied stakeholders.

Category: Exceptional Service

Jean-Pierre Leblanc, Cornwall, Ontario

Jean-Pierre's customers appreciate his commitment to them as clients and as people. He's always one step ahead of the game, anticipating their needs, keeping them up to date on developments and maintaining close communication ties. His caring attitude extends outside the workplace as well, where he never fails to have a friendly greeting when he meets his customers and their families.

Category: Bravery / Exceptional Community Service

Reginald E. Caster, Memphis, Tennessee

Reginald is a man with a mission. Determined to provide positive role models for young inner-city kids, in 1986 he co-founded *The Elephant Men*, a mentoring group designed to build self-esteem in boys aged 9-13. Reginald feels that there is no greater enjoyment than helping children become "hardworking, positive people who are an asset to their community, family and country." The group provides development programs that teach proper behavior, grooming and self-improvement. For the last 15 years, Reginald has dedicated a great deal of his time to this program about which he is so passionate.

Category: People Management

Richard Boyer, Brampton, Ontario

The people who work for Richard can't say enough good things about him. After his arrival at the Brampton Intermodal Terminal, employees quickly became impressed with his respect for them, his management style and his recognition of their efforts. They appreciated the introduction of weekly management meetings and the fact he gave employees the proper tools to work with. The results speak for themselves. Richard has turned the Brampton Intermodal Terminal into one of the most productive and effective on the system.

Category: People Management

Susan Evans-Seebeck, Montreal, Quebec

Susan's secret to successful people management is simple: She puts people first. Recognizing that each individual is unique, she works to ensure that the skills and talents of every person in her group are matched to the task. That translates into doing an outstanding job of coaching and building confidence in those who work with her. She takes the time to listen to what people have to say and uses their input to help them develop effective solutions.

Category: Cost Effectiveness

The Belleville Used Rail Sorting Team – *Bruce Emberly, Montreal, Quebec; Richard Maltby, Belleville, Ontario; Susan Pike, Montreal, Quebec; John Shakell, Belleville, Ontario*

This team proved that a little innovative thinking can go a long way. By revisiting an existing method for disposing of used rail, they found new solutions that resulted in substantial savings. They arranged for some of the used rail to be recycled into other products instead of being sold only as scrap… and for freight charges to be billed to the buyer instead of having CN pay them.

Category: Operational Breakthrough

The Vancouver Pipeline Management Team – *Greg Buckingham, Surrey, British Columbia; Earl Code, Edmonton, Alberta; Gerry Fox, Edmonton, Alberta; Grant Medland, Edmonton, Alberta; Marvin Rentz, Winnipeg, Manitoba*

This team saw an opportunity and seized on it. Coincident with the "de-pooling" of grain, they reexamined company procedures and found a new, faster and more efficient way to bring grain to the Port of Vancouver. Their goal of turning cars around faster and gaining efficiencies was more than realized. Not only did their innovative solution generate revenue increases for CN, it also led to lower annual railcar leasing costs.

Category: Environmental Impact

Guy Alan Crackel, Fort Frances, Ontario

Despite the fact that he had been injured in a train derailment, Guy proved himself capable of the quick thinking required to avert an environmental disaster. He helped to contain a locomotive fuel leak by working to plug the punctures that occurred during the accident. Thanks to him, the fuel ended up in one small area only, minimizing the impact on a scenic area that includes a lake.

Category: Environmental Impact

David Garrod, Winnipeg, Manitoba

Although CN's system for treating wastewater in Winnipeg was within accepted guidelines, it wasn't good enough for David. He decided the wastewater could be cleaner and set about finding a solution. And when he did, everyone benefited. Thanks to new chemicals, the water is now clear; the water treatment plant has reduced its solid waste by 40 per cent and there's an added bonus: The cost of chemicals has been reduced by 60 per cent.

Category: Quality Improvement

Representatives of the Responsible Care® Team – *Antonio Barros, Winnipeg, Manitoba; Mike De Smedt, Harvey, Illinois; Steve Dial, Carbondale, Illinois; Rob McCaffrey, Edmonton, Alberta; Scott McLeod, Harvey, Illinois; Jean Ouellette, Montreal, Quebec; Laura Soutar, Toronto, Ontario*

Introducing Responsible Care® into CN is the result of a remarkable team effort. The program is being recognized for how it was successfully implemented – thanks to the hard work of cross-functional teams from the divisions and headquarters – how it is practiced on a daily basis, and for the advantages it brings to CN.

Responsible Care® is a total management system created by the Canadian Chemical Producers' Association (CCPA) in 1985 to address public concerns about the manufacture, distribution and use of chemical products, and to promote continuous improvement in health, safety and the environment. CN was the first rail carrier in Canada and the United States to undertake the initiative, making it a true Responsible Care® pioneer.

Board of Directors (As of December 31, 2001)

David G.A. McLean, O.B.C., LL.D.
Chairman of the Board
Canadian National
Railway Company
Chairman and
Chief Executive Officer
The McLean Group
Vancouver, BC
Committees: 2*, 3, 4, 5, 6, 7

E. Hunter Harrison
Executive Vice-President and
Chief Operating Officer
Canadian National
Railway Company
Burr Ridge, IL
Committee: 7

Gilbert H. Lamphere
Private Investor and
Former Chairman of the Board
Illinois Central Corporation
New York, NY
Committees: 1, 4, 5, 7

James K. Gray, O.C., LL.D.
Corporate Director and
Former Chairman and
Chief Executive Officer
Canadian Hunter Exploration Ltd.
Calgary, AB
Committees: 1, 2, 4, 7

Paul M. Tellier,
P.C., C.C., Q.C., LL.D.
President and
Chief Executive Officer
Canadian National
Railway Company
Montreal, QC
Committees: 3*, 7

V. Maureen Kempston Darkes,
O.C., D.Comm., LL.D.
Group Vice-President
General Motors Corporation
and President
GM Latin America,
Africa and Middle East
Miami, FL
Committees: 2, 5, 7

Cedric E. Ritchie, O.C., LL.D.
Corporate Director and
Former Chairman and
Chief Executive Officer
The Bank of Nova Scotia
Toronto, ON
Committees: 1, 2, 5, 6, 7

Robert Pace
President and
Chief Executive Officer
The Pace Group
Halifax, NS
Committees: 1*, 2, 6, 7

The Honorable
Edward C. Lumley, P.C., LL.D.
Vice-Chairman
BMO Nesbitt Burns
South Lancaster, ON
Committees: 4, 5, 6*, 7

Ambassador Gordon D. Giffin
Vice-Chairman
Long Aldridge & Norman
Atlanta, GA
Committees: 1, 2, 7

Purdy Crawford, O.C., Q.C., LL.D.
Chairman
AT&T Canada Corp.
Counsel
Osler, Hoskin & Harcourt
Toronto, ON
Committees: 2, 5*, 6, 7

J.V. Raymond Cyr, O.C., LL.D.
Chairman
PolyValor Inc.
and Vice-Chairman
ART Advanced Research &
Technologies Inc.
Montreal, QC
Committees: 1, 4*, 5, 6, 7

Michael R. Armellino
Retired Partner
The Goldman Sachs Group
New York, NY
Committees: 1, 2, 4, 6, 7*

Denis Losier
President and
Chief Executive Officer
Assumption Life
Moncton, NB
Committees: 1, 4, 5, 7

Edith E. Holiday
Attorney and Corporate Director,
Former General Counsel,
United States Treasury Department
and Secretary of the Cabinet
The White House
Washington, D.C.
Committees: 1, 6, 7

Committees: 1 Audit and finance 2 Corporate governance 3 Donations 4 Environment, safety and security 5 Human resources 6 Investment 7 Strategic planning * denotes chairman of the committee

Executive Officers of the Company

David G.A. McLean
Chairman of the Board

Paul M. Tellier
President and
Chief Executive Officer

E. Hunter Harrison
Executive Vice-President and
Chief Operating Officer

Tullio Cedraschi
President and
Chief Executive Officer
CN Investment Division

Les Dakens
Senior Vice-President
Corporate Services

Sean Finn
Senior Vice-President,
Chief Legal Officer and
Corporate Secretary

James M. Foote
Executive Vice-President
Sales and Marketing

William J. Fox
Senior Vice-President
Public Affairs

Keith L. Heller
Senior Vice-President
Eastern Canada Division

Jack T. McBain
Senior Vice-President
Operations

Claude Mongeau
Executive Vice-President and
Chief Financial Officer

Robert E. Noorigian
Vice-President
Investor Relations

Shareholder and investor information

Annual meeting
The annual meeting of shareholders will be held
at 10:30 am on Tuesday, April 16, 2002
at the World Trade and Convention Centre, Halifax, NS

Annual information form
The annual information form may be obtained by writing to:

The Corporate Secretary
Canadian National Railway Company
935 de La Gauchetière Street West
Montreal, Quebec H3B 2M9

Transfer agent and registrar
Computershare Trust Company of Canada

Offices in:
Montreal, QC; Toronto, ON; Calgary, AB; Vancouver, BC
Toll-free: 1-800-332-0095
Montreal telephone: (514) 982-7800
Fax: (514) 982-7635 Web: www.computershare.com

Co-transfer agent and co-registrar
Computershare Trust Company of New York
88 Pine Street, 19th Floor
Wall Street Plaza, New York, NY 10005
Telephone: (212) 701-7600 or 1-800-245-7630

U.S. cash dividends
Shareholders wishing to receive dividends in U.S. dollars may obtain detailed information by communicating with:

Computershare Trust Company of Canada
Telephone: (514) 982-7800 or 1-800-332-0095

Stock exchanges
Canadian National common shares are listed on the Toronto and New York stock exchanges.

Ticker symbols:
CNR (Toronto Stock Exchange)
CNI (New York Stock Exchange)

Investor relations
Robert Noorigian
Vice-President, Investor Relations
Telephone: 1-800-319-9929
(514) 399-0052

Shareholder services
Shareholders having inquiries concerning their shares or wishing to obtain information about CN should contact:

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